











METHODS AND MACHINERY  
OF BUSINESS

(EXCHANGES AND INSURANCE)

A Companion Volume '  
By the Same Author.

**OFFICE PROCEDURE**  
AND  
**COMMERCIAL CORRESPONDENCE**

BY  
**H. CLEMSON**

*Diploma, London Chamber of Commerce, etc., etc.*

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# METHODS AND MACHINERY OF BUSINESS

(EXCHANGES AND INSURANCE)

BY

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DIPLOMA, LONDON CHAMBER OF COMMERCE  
LECTURER AT PRINCIPAL LONDON COMMERCIAL INSTITUTES  
AND AT LONDON COUNTY COUNCIL CENTRES

SECOND EDITION

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## PREFACE TO SECOND EDITION.

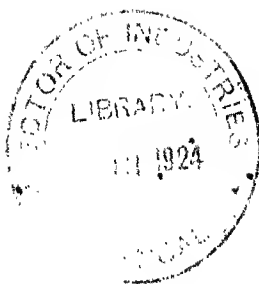
AN opportunity is afforded to me of revising this work, making alterations which have been rendered necessary by amendments of the Acts relating to stamp duties, and, particularly, of adding a Chapter—the last one—on Consols. In this chapter I have attempted to review, in simple language, the various causes of the fluctuations in the market price of Consols and other securities, and the recent suggestions put forward with a view to raise the price of our premier security.

H. CLEMSON.

MUSWELL HALL, LONDON, N.

*March, 1911.*





## PREFACE TO FIRST EDITION.

THIS work is addressed to the clerk in a merchant's office, more especially to the clerk in the shipping department, and to the student who is preparing for the Higher Commercial Education Examinations of the London Chamber of Commerce.

Recognising the importance of Exchanges and Insurance, the London Chamber of Commerce has embodied these subjects in its syllabus under the style of "The Methods and Machinery of Business," which has been adopted as a title to this book; and as Inland and Foreign Exchanges, Marine Insurance and The Stock Exchange are the subjects mainly chosen by students sitting for the examinations, they are dealt with in considerable detail. It is hoped that the book may be found useful also to students of political economy, as the exchange of wealth is herein presented in a practical manner not often associated with works on political economy.

The author recognises the great benefit the commercial youth derives from the labours of the Higher Education Committee of the London Chamber of Commerce, and particularly of its Chairman, Sir, Albert K. Rolit, and

its Secretary, Mr. C. E. Town, to whom every educationalist in this country is greatly indebted, and but for whom these pages would never have been written. His one desire has been to present the subjects to the student in a plain and practical manner.

H. CLEMONS.

*October, 1907.*

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# METHODS AND MACHINERY OF BUSINESS.

## INLAND AND FOREIGN EXCHANGES.

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### INTRODUCTION.

IN the earliest times exchanges were effected by barter. A man who produced a certain commodity in excess of his own needs sought to exchange his surplus for some other thing which he desired to possess, but could not produce. To effect such an exchange he had to seek some one who was not only willing to take his surplus, but who also possessed, and was ready to part with, the thing he desired in exchange. The inconveniences of the system led to the adoption in different countries of a medium of exchange: an article so generally esteemed that every one would gladly accept it in exchange for his surplus products. In civilized countries metals were preferred to any other commodity, and these metals ultimately took the form of coins. Money thus became the general medium of exchange, (a) and silver and gold the almost universal metals of which the money was composed. The relative values of these

\* (a) For other functions, as well as the attributes of money, see Sykes' "Banking and Currency" for a short and succinct account.

two metals did not fluctuate greatly, until the discovery of silver in South America by the Spaniards altered it from 11 to 1 to about 15½ to 1, and the further discoveries of inexhaustible supplies in the western states of the United States of America and in Mexico reduced its value, as compared with that of gold, to about 32 to 1. Before this latter period, England had adopted a gold standard, and the violent fluctuations in the value of silver have since caused many other countries to follow her lead; but although gold has become the general standard, the weight of that metal, and the proportion of alloy with which it is mixed, in the coinage of different countries varies, and the English sovereign has no exact counterpart in weight or value in any other coin in the world. In our exchanges with foreign countries having a gold standard it is easy to establish the relative values of the coinage by calculating the exact quantity of pure gold contained in each; but where a country has only a silver standard the fluctuating value of silver may alter it from day to day.

The growth of commerce has completely outstripped the production of the precious metals, and the inconvenience and costliness of forwarding them from one place to another has rendered necessary some forms of paper substitutes for gold and silver. Every country makes use in its inland exchanges, of bank-notes and cheques, and in its foreign exchanges, of bills of exchange. In England, more than in any other country, cheques form a preponderating part of our instruments of exchange, the cheques and bills passing through the London Bankers' Clearing House reaching a total of nearly £13,000,000,000 per annum.

In the following pages an attempt has been made to explain the uses of these various media of exchange.

the amount, cancelled the cheque by writing across the signature and punching holes through it, and returned it in the pocket of the pass-book to W. Bowen.

*Dishonoured Cheques.*

Not every cheque is paid by the banker upon whom it is drawn. There may be some irregularity in the drawing or endorsement which causes the banker to refuse payment, or it may be that the drawer had not sufficient funds at his bankers to meet the cheque. If it be post-dated (that is, dated at a later date), or the sum as stated in words does not agree with that stated in figures, or the endorsement does not agree with the name of the payee, the banker will return the cheque that the irregularity may be rectified. If it be returned for want of sufficient funds, the banker may mark it N/S (= not sufficient), or, as is more usual, R/D (= refer to drawer); and, should the collecting banker have given credit to his customer for the amount, he will return the cheque and re-debit the account.

When cheques are so dishonoured, it is usual to have them "noted." They are handed to a "public notary," who represents them at the bank, and upon a refusal to pay, attaches a small slip of paper, upon which he writes the reason given for non-payment. The dishonoured cheques, coming again into the possession of the legal holder, act as proofs of debts, and simplify proceedings taken for their recovery. If the holder be not the payee, but one who has received the cheque after one or more endorsements, he should at once give notice of dishonour to all the endorsers; they are all liable to him for payment, but his right against them is forfeited unless he promptly advises them of dishonour.

## CHAPTER III.

### INLAND BILLS OF EXCHANGE.

A BILL of exchange, as used in the home trade, generally takes the form of an order by a creditor addressed to his debtor, requiring him to pay a certain sum at a stated future date. If the debtor assent to this order, by signing his name across the face of the bill, the creditor may take it to his bankers, who will at once place the sum to the credit of his account, in the same manner as if cash or cheques had been handed to them instead of a bill ; and they will debit him with a small sum representing interest on what is practically a loan. Hence, a bill of exchange is frequently referred to as an instrument of credit. The bankers have very many sums, large and small, deposited with them by their numerous customers, and experience has proved to them that, although much of the money may be withdrawn without notice, they may with reasonable safety employ some two-thirds of the total deposits in investments and loans upon good security, including bills of exchange. The dividend and interest upon these investments and loans constitute a large proportion of the income of the bankers.

EXAMPLE.—Barlow Brothers, of London, have sold goods to the value of £70 to R. Stevens, of Guildford, upon the condition that 2½ per cent. discount may be deducted if cash be paid promptly, or

that three months' credit may be taken and no discount allowed. R. Stevens elects to take three months' credit. He will probably not sell the whole of the goods for some time, and may then sell them on credit, therefore it is an advantage to him to defer his payment for three months, even though by so doing he loses the opportunity of deducting  $2\frac{1}{2}$  per cent discount.

Although Barlow Brothers are content to take upon themselves any risk involved in this deferred system of payment, they are not so overburdened with capital that they can afford to leave all such debts open in their books. They therefore draw a bill upon R. Stevens, and forward it to him, with a request that he will "accept" it, and duly return it to them. The bill will be written on paper, bearing an impressed stamp, as illustrated.

R. Stevens, having written his acceptance across the face of the bill, and notified that he wishes it presented for payment at his bankers, the L. & C. Bank, at its due date, returns it to Barlow Brothers. The latter firm thus becomes possessed, not of the money, but of a written promise to pay £70 on April 4; (a) and they may now take the bill to their bankers, the L. & W. bank, who will discount it for them upon their endorsing it. It may be that the bank will require interest at a rate of one per cent. above bank rate, and that Barlow Brothers discount it on January 4th. Assuming that the bank rate was 4 per cent., the L. & W. Bank would place to the credit of Barlow Brothers the sum of £70, and to their debit the sum of 17s. 6d.—17s. 6d. being interest for three months at the rate of 5 per cent. on £70. It will be seen that R. Stevens is not required to pay for his purchases for three months, whilst Barlow Brothers are enabled to get immediate

(a) On the face of it the bill would appear to fall due on the first day of April, but in Great Britain three days' grace are allowed on all bills other than those payable on demand, the due date being the last of these days of grace.

credit at their bankers; they are, in fact, trading upon the resources of the bank.

When the bill becomes due on April 4th, the L. & W. Bank will cause it to be presented at the L. & C. Bank at Guildford for payment, and the L. & C. Bank will debit R. Stevens with £70.

Should the L. & C. Bank refuse to pay, because R. Stevens' balance in their hands is less than £70, or for any other reason, the bill is said to be "dishonoured" and will be returned to the L. & W. Bank, who will debit Barlow Brothers' account with the amount and hand the bill back to them.

The position may be summed up thus—Barlow Brothers undertake the risk of their customer's failure to pay at maturity (otherwise due date), the L. & W. Bank advancing the money on the combined security of both parties. If, therefore, the bill be dishonoured, Barlow Brothers must re-pay the money advanced, and may take legal proceedings against R. Stevens for the recovery of the amount, the bill being evidence of the debt.

The above example will serve to illustrate one of the simplest forms of bills of exchange, and their usefulness.

The person who draws the bill is presumed to be the creditor, and is called the "drawer." The person upon whom it is drawn is the debtor, and is called the "drawee."

Dishonoured bills are noted in the same manner as cheques, and London bills are cleared together with cheques at the London Bankers' Clearing House.

The stamp duty upon bills and other instruments of credit is given at page 21.

## CHAPTER IV.

### FOREIGN BILLS OF EXCHANGE.

BILLS which are drawn in one country and payable in another are called foreign bills, and may be drawn in the currency of either the country of origin or of payment.

In England, a month, as applied to a bill, means a calendar month, and may be any number of days from twenty-eight to thirty-one, inclusive; but in some countries it is equivalent to thirty days, irrespective of the actual number according to the calendar.

In local bills, there is no objection to making the period commence to run from the date of the bill; but where bills are drawn upon a distant place, and much time is spent in their transmission, the period is made to commence from the date they are presented to the persons upon whom they are drawn. It is obvious that a bill drawn upon a firm in Sydney at thirty days after date would become due as soon as it reached that city, and might as well have been drawn payable on demand.

To meet these difficulties, it is customary, in drawing foreign bills, to make them payable at a given number (often 30, 60, or 90) of days after sight; "sight" being held to be the day on which they are presented for acceptance to the drawee.

The time occupied in the transmission of bills to distant



places is responsible for another difference between inland and foreign bills. If the bill sent from London to Guildford for acceptance miscarried, that fact would soon become known, and another bill dispatched; but if a bill drawn upon a foreign or colonial firm miscarried, much time might be lost before another could be forwarded. Hence merchants draw foreign bills in sets of three, dispatching one at the time of drawing and another by the mail next following, in the manner shown at p. 26.

Still another difference may be noted. The bill drawn by Barlow Brothers was made payable to their order and required their endorsement. It was sent for acceptance to, and returned by, R. Stevens, and was only endorsed by Barlow Brothers at the time of its disposal. A bill drawn upon a Bombay firm at thirty days after sight and returned to London for the drawer's endorsement, would become overdue before it could again reach Bombay for payment. It becomes necessary, therefore, to make it payable to the order of some one in Bombay who will endorse it and present it for payment at maturity. (*a*)

A bill of exchange, like a bank-note or cheque, is a negotiable instrument, the word "negotiable" here meaning not merely transferable, as many documents may be transferred which are not negotiable. Any person who takes a bill or other negotiable instrument *bonâ fide*, and gives value for it, becomes the legal owner of that instrument, even though he received it from some one who had no right to it, provided there is no forgery.

Every bill of exchange must be written on paper previously stamped, and foreign bills must also bear an adhesive stamp, affixed to them before or at the time of negotiation, in the country in which they are made payable. The countries of origin and of payment both demand a

(*a*) The person to whom the bill is payable is called the "payee."

stamp duty on all bills. In the case of a bill drawn in one country, payable in another, and negotiated in a third, the country in which it is negotiated will generally (as in England) require that it shall also be stamped therein with half the ordinary duty. There are some exceptions to this last rule.

*Stamp Duties on Inland and Foreign Bills*

	<i>s. d.</i>
For bills of exchange at sight, or on demand, or not more than three days after sight or after date	0 1
For other bills of exchange and all promissory notes not exceeding £5 . . . . .	0 1
"      "      £10 . . . . .	0 2
"      "      £25 . . . . .	0 3
"      "      £50 . . . . .	0 6
"      "      £75 . . . . .	0 9
"      "      £100 . . . . .	1 0
Exceeding £100:	
For every complete £100, and fractional part thereof . . . . .	1 0
When bills are drawn abroad and payable abroad, but negotiated in England, from £50 to £100 . . . . .	0 6
Exceeding £100:	
For every complete £100, and fractional part thereof . . . . .	0 6

## CHAPTER V.

### THE EXPORT TRADE.

THE export trade of the country is financed by means of bills of exchange.

These bills may be drawn by the exporter upon his foreign or colonial customers ; and one class of bills, known as documentary bills, enables him to withhold from his customers possession of the goods until the bills have been paid.

If a merchant in Bombay desires to obtain goods from a firm in London, to whom he is not sufficiently well known to warrant their giving him credit, it is not necessary that he should send cash with his indent (*a*) or order ; that would mean parting with his money a month or two before he received the goods. He may request the London firm to draw upon him at, say, thirty days' sight, against documents, which is an undertaking to pay cash on delivery of the goods ; and the London firm may secure a considerable advance from a banker on the production of the bill, etc.

EXAMPLE.—William Turner, of London, received an indent or order for certain goods to be forwarded to Diabjee & Co., of Bombay, with instructions from them to draw at thirty days' sight.

(*a*) Indent is the name commonly given to orders received from abroad.

## SHIPPING INVOICE (Master V)

Invoice of 1 Can. Sundry shipped for  
 "Revenue" for Bombay on account of the  
 2nd of 1840 for Bombay by  
 "Doe" to the Hon. Secy of the Am. Cons.  
 at Bombay

[illegible]

EOE means "Errors and Omissions Excepted" and is still found on some shipping invoices.

W. Turner placed the orders with several manufacturers and wholesale houses, and when he received advice from them that the goods were packed and ready for shipment, each case being marked and numbered in accordance with the orders, he sent to the several firms a Shipping Note, which is an instruction to the Superintendent of the Docks, to receive and place them on board a stated ship.

SHIPPING NOTE.	
11, Leadenhall St., 1st January, 1907.	
To the Superintendent, Tilbury Docks.	
Please receive and ship on board the ss. <i>Macedonia</i> , for Bombay, the undermentioned goods; charges to my deposit account.	
WILLIAM TURNER.	
D. & Co., Bombay.	21/5.      5 Cases Drapery.

The Dock Company have a lien (*b*) upon goods, whilst they are in their possession, for the payment of their charges, but as this lien is lost when they are placed on board the ship, the Company will not ship them until their charges are paid or a deposit account, opened with them.

When he ascertained that all the goods were shipped on board the steamer, he made out three bills of lading, each

(*b*) A holder's right to retain possession of goods of which he is not the legal owner until payment of a debt.

being an exact counterpart of the other two, and bearing a sixpenny impressed stamp. The bills of lading he sent to the office of the Shipping Company, who first satisfied themselves that the goods were shipped in good order and condition, and then caused them to be signed by the captain or other officer of the Company. As freight (*c*) was agreed to be paid in advance, a cheque for its amount was handed to the Shipping Company in exchange for the signed bills (B/L).

If packages, when shipped on board a vessel, bear any trace of damage, the mate's (*d*) receipt and the bill of lading will record it. They may be marked "wrapper torn," "case No. 42 wet," etc., and are then termed "foul," instead of "clean."

Wm. Turner then effected an insurance to cover the risks of a sea voyage, as described at page 82.

Before making out a shipping invoice, he collected together the following documents:—

- (a) Invoice, three copies, from each supplier of goods.
- (b) The Railway Company's invoice of carriage.
- (c) The Dock Company's charges note.
- (d) The Marine Insurance Policy.
- (e) The Shipping Company's freight note.

It is imperative that he should be in possession of each of

(c) As cartage is the term used for the cost of conveyance by cart or van, carriage for cost of conveyance by rail, and lighterage for cost of conveyance by barge or lighter, so the cost of conveyance by ship is called freight. In the United States of America, the word freight is often applied to conveyance by rail or sea.

(d) Where goods are sent to the docks by van, the Dock Company hand to the carman a receipt, and make a charge to the shipper for handling them. Where goods are sent by barge or lighter and shipped "alongside," the Ship's officer signs a form known as a "Mate's receipt," which is a document of title of a temporary character to be surrendered in exchange for a bill of lading; and there is no charge made by the Dock Company, as they do not handle the goods.

these, as the consignees must be charged with every item of expense, or he will sustain a loss.

The shipping invoice also was made out in triplicate.

Fine goods are usually charged by measurement, 40 cubic feet being reckoned as a ton, and the rate made at so much per ton. Heavy goods are charged by weight.

• Primage is a charge originally made by the captain for services rendered in connection with loading, but now made by the Shipping Company. The Railway Company's charges for goods conveyed from the provinces to the docks usually includes the dock charges.

Acting upon the instructions of Diabjee & Co., Wm. Turner then drew upon them at 30 days' sight (30 d/s) for the amount of the invoice, in rupees, at a rate fixed by the Indian bankers in London. Assuming this to be 1¼ (one shilling and four pence equals 1 rupee) the sum in Indian currency is Rs.3347.10. (16 annas being the equivalent of a rupee), and the bill was drawn in a set of three, the first only being stamped.

Some merchants make out the bills of lading and bills of exchange to their own order, but this necessitates their being endorsed to the order of the collecting bank.

Wm. Turner not only passed the bill to the bank for collection, but attached to them the invoices, the B/L, both in triplicate, and the policy of insurance, and, with these documents attached, they are termed "Documentary Bills." It might happen that the consignees would refuse to accept or to pay the draft, and, therefore, it is usual to hand to the bank also a "letter of hypothecation"—an authority to the bank to sell the goods in the event of the bill being dishonoured, and debit the cost of the sale and any loss accruing therefrom to the drawer. (c)

(c) If the bank were not armed with this authority they could not dispose of the goods without reference first to the London merchant, unless they took

It remained for Wm. Turner to fill in a form of "specification," and deliver it to the Statistical department at the Custom House. (f) This form is of two kinds, one for goods of British or Irish origin, and the other for goods of foreign origin. It gives details of the name of the ship, the port to which the goods were consigned, and their quantity, nature, and value; and it is from these documents the returns of the Board of Trade are compiled, showing our total exports to various countries. The lodgement of the specification is compulsory within six days of the clearance outwards of the vessel.

The bank sent the first bill of exchange, with one copy of the B.L., and one set of invoices, to their Bombay branch by the mail leaving London on January 11th, one week after the s.s. *Macedonia* had sailed from the Tilbury Docks; but as the mails travelled overland across Europe to Brindisi, and thence proceeded by the s.s. *Isis*, or *Osiris* to Egypt, they overtook and were put on board the s.s. *Macedonia* at Suez. By the following mail, the bank sent another set of documents, retaining the third set in their possession at the London office. (g)

upon themselves the risk of any loss, and such a reference would entail considerable delay and probably result in a further loss, as the Bombay purchaser may be presumed to have ordered the goods to arrive at a time when the market was favourable.

(f) Specifications are made out in separate forms for British and Irish goods, and for goods of foreign origin.

(g) Foreign bills, especially those upon a country far distant from the place of issue, are usually drawn in sets of three, the first being dispatched immediately, and the second by the following mail. Should the first not arrive, or be delayed until after the arrival of the next mail, the second is presented for acceptance, and valuable time saved; and the same remark applies to the Bill of Lading. The third of the set is retained in London, and is very rarely used, though the writer recalls an instance where the possession of a third Bill of Lading proved advantageous to the London merchant, who, having dispatched the first two, received news of the total loss of the ship and cargo, and



On the day following the dispatch of the first mail, January 12th, the National Bank of India paid a cheque to Wm. Turner for 80 per cent. of the amount drawn for, viz., £178 10s. 3d., leaving a balance of £44 12s. 6d. to be paid upon receiving advice from their Bombay branch that the bill had been duly honoured. (*h*)

It will be seen that, by this method, the foreign consignee is not given credit, and cannot secure the bill of lading or the goods until he has actually paid to the National Bank of India at Bombay the sum stated upon the bill of exchange. He may, however, secure the goods earlier by retiring the bill under rebate—he may pay cash at any time before the bill is due, and the bank will make an allowance, by way of rebate of interest from the time of payment to the date of maturity. The National Bank of India in London quoted a rate of exchange which compensated them for making an advance at the time of shipment, reckoning interest from that date until the due date of the bill; hence, they will refund part of this interest if the amount be repaid to them at an earlier period.

In some cases arrangements are specially made with the bank to deliver to the consignee the bills of lading upon his acceptance only, the London merchant being content to bear the risk of dishonour after the bill has been accepted.

Another method is to forward the goods direct to the foreign customer, leaving it to him to remit a bill of exchange payable in London, but this implies confidence

was able, by its production, to prove to the Underwriters that his goods were placed upon the ship in good order and condition.

(*h*) Some bankers may advance the whole sum, but others retain about 20 per cent. until they receive advice of payment by the consignee. The commission which the banker charges is covered by the rate of exchange where the drafts are in a foreign currency.

in the customer, and an abundance of capital. Such bills of exchange are generally purchased from a foreign or colonial bank having an office, or agent, in London, and are mostly bankers' drafts, the drawer and drawee being practically the same person.

In the example given here, it is shown that the bankers make large advances upon, that is, they practically buy, the Bill of Exchange before its acceptance by the drawee, their security being the signature of the drawer, plus the possession of documents of title to the goods. This course is pursued largely in exporting goods to distant countries.

Where goods are exported to countries not far removed, a bill may be drawn upon the consignee and forwarded by post for his acceptance and return. It may then be taken to a bill broker or discount house, and discounted with, or sold to, them. The bill broker will not have possession of any documents of title, but he has a double security, namely, that of drawer and drawee, both of whose signatures are appended to the bill.


By whichever method the export trade is financed, it results in payments being made by London bankers or financial houses, and cash received by their agents abroad; and although these institutions preserve the same aggregate balance, their local balances are disturbed, those abroad receiving considerable additions, and those at home being seriously depleted. A means of redressing this disturbance is provided by the financing of the import trade, which is dealt with in the following chapter.

## CHAPTER VI.

### THE IMPORT TRADE.

THE foreign or colonial producer who exports his goods usually obtains financial assistance at the time of shipment, and an example is here given which, for the sake of variety, is not an Indian, but an Australian transaction.

W. Arbethnot, a squatter in New South Wales, as a result of shearing, etc., became the possessor of forty bales of wool, each of which was marked with his distinc-

tive mark , and numbered from one to forty, and

they were then forwarded to Sydney and shipped on board the s.s. *Woolloomooloo*. The total weight of wool was 12,000 pounds, and he drew a bill (a) for £300 (representing sixpence per pound on the total weight), upon his agent in London, at sixty days after sight. (b)

The price of the wool in London was uncertain, although it was certain to sell for much more than sixpence per pound, and the advance of this sum may appear inadequate; but the freight was not paid in Sydney, being left for payment

(a) The bill was drawn in a set of three, for examples of which see p. 35.

(b) Sixty 'days' after sight allowed for the sale of the wool taking place before the maturity of the bill.

in London, and the bank advanced the total sum of the bill, less their interest charges.

W. Arbuthnot deposited the bills of exchange, bills of lading and policy of marine insurance with the Bank of Australasia in Sydney, and the sum was placed to his credit.

Upon the arrival of the first set of documents at the head office of the Bank of Australasia in London, one of their clerks presented the bill of exchange at the office of James Duncan & Co. (agents for W. Arbuthnot) for acceptance, and in accepting it James Duncan & Co. wrote above their signature the date on which it was presented to them.

When the steamer *Woolloomooloo* arrived at the Royal Albert Docks the Dock Company were requested to land the wool and store it in their warehouse, awaiting sale. They weighed each bale and took samples from each, which samples were handed to the broker, into whose hands was placed the duty of selling it at the next wool sales, (c) and, since the Dock Company are not responsible for loss of goods by fire whilst in their warehouse, a short period policy of fire insurance was effected with one of the London Fire Insurance Companies. James Duncan & Co. also paid the freight on the wool from Sydney to London, as well as the charges made by the Dock Company, who then issued what is known as a dock warrant. A dock warrant is a document of title to the goods which can only be secured upon its production, duly endorsed by the person in whose name it is made out. The property in the wool became transferable by endorsement to the order of the purchaser. The broker advertised the wool for sale, and entered it in his catalogue for the next sale at the Wool Exchange,

(c) Occasionally wool is sold direct to a woollen manufacturer, without the aid of a broker.

where nearly all the wool which arrives at the Port of London is sold periodically and by auction. Buyers of wool from Bradford, Leeds, and other English woollen manufacturing centres, as well as from many continental centres, having examined the samples, congregated at the wool sales room, and bid against each other for the forty bales, which were divided into three lots of varying qualities or fineness (*a*). A sale was effected, a prompt date fixed for payment, and then, in exchange for the purchaser's cheque, the dock warrant was handed to him. As the wool was sold before maturity of the bill Duncan & Co. were compelled to retire the bill, and, as the bank had charged W. Arbutnot in Sydney with interest up to the due date the London office of the Bank allowed a rebate of interest for the period from the time of retiring it to the due date.

Duncan & Co. then made out an account sales, showing the gross proceeds of the sale, and deducting therefrom freight, fire insurance, dock charges, sale expenses and brokerage, and their own commission and advances, leaving a sum (the net proceeds) which they handed to the Bank of Australasia, receiving in exchange a draft on their branch in Sydney, which was duly forwarded to W. Arbutnot with the account sales.

This is but one of several ways of financing the import trade, and serves to show that cash is paid out by the foreign and colonial branches of the banks and received by their London offices, which is exactly the reverse to the export trade.

The Indian Government receives its revequ  in rupees in India, and has to pay its English creditors in sterling in London. From time to time, it offers, in London, bills on

(*d*) The whole clip of wool will not be of an even quality, and the lower qualities are packed separately.

Bombay, Madras, and Calcutta, and many merchants who have to make remittances to India apply for these Indian Council drafts, paying for them in sterling. The money obtained in this manner is used for the purpose of paying English creditors, and the drafts on Bombay, etc., are met with the rupees paid as taxes and duties. The Indian Council does not fix a rate of exchange, but invites tenders for the bills, and accepts the best tenders. Thus, we read in the daily newspapers that the "Indian Council invited tenders for Rs.10,00,000 (e) in bills and telegraphic transfers (f); that tenders were received for Rs.35,50,000, and that those at  $1\frac{1}{4}$  and upwards for bills, or  $1\frac{1}{4}$  for telegraphic transfers were allotted in full."

It is seen, therefore, that the value of exports is paid out by bankers in London and received abroad, and the value of imports is paid out abroad and received in London. If the total value of the exports to and imports from any country, financed by a bank and its branches, are equal, the balances are not affected; but if either exports or imports largely exceed the other there is a considerable adjustment required, which will be dealt with under the heading of "Rates of Exchange."

(e) Rs.10,00,000 = 1 million, or 10 lakhs of rupees.

Rs.1,00,00,000 = 10 " " or 1 crore of rupees.

(f) The Indian Council will telegraph instructions to pay the money in India, at a highly higher rate.

## CHAPTER VII.

### MINT-PAR OF EXCHANGE, AND GOLD POINTS.

THERE is between all countries having a gold standard, a "mint par of exchange," which is the relative value of pure gold in the Standard coinage. To establish this mint-par between two countries it is necessary to ascertain from their Coinage Acts the quantity of pure gold contained in their Standard coins. It will be shown that a sovereign contains the same quantity of pure gold as twenty-five francs and twenty-two and a quarter centimes, and, therefore, the mint-par of exchange is established as 25.22½, their gold values being equal. It is clear that this mint-par cannot vary unless the coinage laws of one of the countries is altered.

#### *English Coinage.*

40 lbs. Troy of 1½ths fine gold is coined into 1869 sovereigns, or, 440 ozs. of pure gold are contained in 1869 sovereigns.

#### *French Coinage.*

1000 grams of 16ths fine gold is coined into 155 Napoléons, or, 900 grams of pure gold are contained in 3100 francs.

(There are 311035 grams to one ounce.)

To determine the number of francs that are equal in value to one sovereign, having given that 440 ounces of pure gold are contained in 1869 sovereigns, and that 900 grams of pure gold are contained in 3100 francs, the calculation may clearly be stated thus (a):—

$$\begin{aligned} 1869 \text{ sovereigns} &= 440 \text{ ounces.} \\ 1 \text{ ounce} &= 31.1035 \text{ grammes.} \\ 900 \text{ grams} &= 3100 \text{ francs.} \\ ? \text{ francs} &= 1 \text{ sovereign.} \end{aligned}$$

$$\text{i.e., } 440 \times 31.1035 \times 3100 \div 1869 \times 900 = 25.2219, \text{ say, } 25.22\frac{1}{2}.$$

Therefore, £1 = Frs. 25.22½, which is the mint-par of Exchange between England and France.

*German Coinage.*

•500 grams of pure gold is contained in 1395 marks.

(The German coinage is not of pure gold, alloy being added to reduce the Standard to  $\frac{9}{10}$ ths fine.)

To determine the mint-par between England and Germany, between sovereigns and marks, it is merely necessary to state:—

$$440 \times 31.1035 \times 1395 \div 1869 \times 500 = 20.429, \text{ say, marks } 20.43.$$

Therefore, £1 = Rms. 20.43, (b) which is the mint-par of Exchange with Germany.

*United States of America Coinage.*

One dollar equals 25.8 grains of  $\frac{9}{10}$ ths fine gold, or, 1 dollar contains 23.22 grains of pure gold.

(a) The form in which the calculation is here presented is termed "Chain Rule," and is often used for exchange problems. It is really a short way of stating the "Method of Unity"; for a full explanation, see any good textbook on commercial Arithmetic.

(b) Reichmarks, or marks as they are more generally called.



To establish the mint-par between England and the United States of America, reckon 480 grains to 1 oz., and state thus :—

$$\frac{440 \times 480 \times 1}{1860 \times 23 \cdot 22} = 4 \cdot 86 \frac{2}{3}.$$

Therefore, £1 = \$4.86 $\frac{2}{3}$ , which is the mint-par of Exchange with the United States of America.

There cannot be a mint-par of Exchange between one country having a gold standard and another having a silver standard, because the relative value of gold and silver is constantly changing, being subject to very great variations.

In England the standard of coinage for gold coins is  $\frac{11}{12}$  fine, or, as it is called by the jewellers, 22 carat (pure gold is 24 carat), signifying that 2 carat alloy has been added, making the mass  $\frac{22}{24}$  or  $\frac{11}{12}$  fine. Since 1869 sovereigns are coined out of 480 oz.  $\frac{11}{12}$  fine gold, each ounce of standard gold is equivalent to £3 17s. 10 $\frac{1}{2}$ d. Practically all the gold sold is taken to the Bank of England, which must give at once £3 17s. 9d. per ounce of  $\frac{11}{12}$  fine for all gold offered to it, and often gives a halfpenny or penny more.

In other countries the gold standard is generally fixed at  $\frac{9}{10}$  fine, and when coins of these countries are offered to the Bank of England, it buys them according to their actual weight, and at a proportionate rate, giving its notes in exchange.

The difference of 1 $\frac{1}{2}$ d. per oz. which sometimes exists between the Bank of England price and mint price of gold, is fully compensated for by the lesser cost of carriage to, and the immediate payment at, the former institution. As the word "price" has been here mentioned; it should be said that the price of gold is merely the value of gold

bullion stated in gold coinage, and it would seem therefore to be fixed; but, in need of large supplies of gold, some countries occasionally offer more for it than its mint value.

To illustrate this mint-par of exchange, let it be assumed that a man has in new gold coins £10,000, which he places in one crucible; 252,225 francs, which he places in another; and 204,290 marks, which he places in a third crucible. When the whole have become molten, he will find himself in possession of three nuggets of gold of practically equal value and interchangeable. If he take that nugget which was lately in the form of sovereigns to the Bank of France, he will receive notes to the value of nearly 252,225 francs; and if he take to the Bank of England that nugget which was formerly marks, he will receive nearly £10,000 in bank notes. The French and German nuggets will be of the same weight, the English nugget being lighter because finer. If, now, he extract all alloy from the three nuggets, they will be found to be of equal weight.

The rate of exchange between two countries, if remittances were made in gold, would be the mint-par of exchange plus or minus the cost of transmitting the metal, the cost of remittance being added if a country quote the rate in its own currency, but deducted if quoted in the currency of the other country.

#### *Gold Points or Specie Points.*

Rates of exchange vary from day to day, but there is a limit to those variations in respect of countries having a gold standard. They may rise above, or fall below, mint-par, but not to an extent (except for a very brief period) greater than the cost of transmitting gold. It is more economical and convenient to buy a bill on Paris than to

send sovereigns, whether the rate be at 25'22½ or at 25'15. To establish the point at which it is as cheap to send gold as to buy a draft, take the cost of packing, conveyance, and insurance between London and Paris, viz. 10 centimes per £1 sterling (c), and deduct that from mint-par. Or, to establish the point at which the French merchant may as cheaply forward us gold as buy a bill on London, add 10 centimes to the mint-par. These two points are known as gold or specie points.

Gold point, London to Paris.	Cost of trans- mitting gold. 10 c.	Mint-par.	Cost of trans- mitting gold. 10 c.	Gold point, Paris to London.
25'12½		25'22½		25'32½

A merchant in London will buy bills on Paris, to satisfy his Paris creditors, only as long as it is cheaper than sending gold; and as soon as the rate is quoted at less than 25'12½ he will give up buying bills.

EXAMPLE.—A London merchant has to remit £10,000 to Paris, and the rate quoted for sight bills on Paris is 25'10, which is below gold point.

*By Bill.*—In exchange for his cheque for £10,000 he may obtain a bill at sight on Paris for 251,000 frs.

*By Gold.*—In exchange for his cheque for £10,000, he may obtain 10,000 sovereigns of full weight, and send them to Paris, where the Bank of France will exchange them for . . . . . frs. 252,225  
He must pay for carriage, insurance, etc., at the rate  
of 10 c. per £1 . . . . . 1,000

Receiving, net frs. 251,225

Saving 225 francs on the transaction.

In like manner a Paris merchant will not pay more than 25'32½ francs per £ for a draft on London, because he can remit gold at a cost of 10 centimes per £, and the gold will be exchanged in London at the mint-par, namely, 25'22½.

(c) The usual charge made by a bullion broker, covering all expenses connected with the transport of gold between these two cities.

" The cost of transmitting gold, including all the expenses of brokerage, packing, rail and sea carriage and insurance, is approximately as follows :— "

London to Paris } 10 centimes per £1, or 4 per mille (4 per cent.)  
 Paris to London }

London to Berlin } 10 pfennigs per £1, or 5 per mille (5 per cent.)  
 Berlin to London }

London to New York { This rate varies, and the time occupied in  
 New York to London { transit introduces another element, viz.,  
 interest.

#### THE GOLD POINTS.

Country.	Gold point from London.	Cost of sending gold.	Mint-par.	Cost of sending gold.	Gold point to London.
France .	25'12 $\frac{1}{4}$	10 c.	25'22 $\frac{1}{4}$	10 c.	25'32 $\frac{1}{4}$
Germany .	20'33	10 c.	20'43	10 c.	20'53
U.S.A. . .			4'86 $\frac{2}{3}$		

## CHAPTER VIII.

### RATES OF EXCHANGE.

A COUNTRY has to pay for the value of goods it imports and receives payment for the value of its exports, and many have been led to the belief that if the former exceed the latter, the difference must be paid in gold. A glance at the Board of Trade Returns will show that Great Britain's imports are in excess of her exports to so large an extent, that the payment of the balance in gold would be an impossibility, and that she must have some other means of settlement.

Great Britain is a large carrying nation, her mercantile marine annually earning approximately £100,000,000 in carrying passengers and merchandise from one country to another; and she is also a creditor nation, having invested immense sums in the colonies and foreign countries, and being due to receive very many millions sterling by way of interest on those investments. Instead of receiving payment for these and other items of income in gold, she receives imports in excess of exports; receives goods instead of gold. Every country which is either a carrying or a creditor country can, and generally does, import more than she exports.

• On the other hand, a country which does not carry, and is a debtor nation, must either export more than she

imports or become deeper in debt. Russia's exports must be of equal value to that of her imports plus the interest on her debt. She must pay in goods exported for goods imported, and must also export goods to pay interest on her debt, or raise another loan instead.

It is not altogether to the balance of trade between England and another country that we look for an index of the rate of exchange, but rather to the debts of each to the other which are due for immediate payment. If the total payment to be made by England to France at a given period be the same as that due from France to England, the rate of exchange will be found to be about par (25·22½). Any considerable departure from that equilibrium will cause the rate to become unfavourable to the country owing the balance. If England have to pay France £4,000,000 and France to pay England £3,000,000, the bills of exchange representing these transactions cannot be set off against each other entirely; there will be a balance of £1,000,000 due from England to France for which there are no corresponding bills, and unless the holders of these £1,000,000 bills due in London can find bills for a similar amount due in Paris, they may have to forward gold to France; in which case, owing to the cost of transmission, they will be receiving an equivalent of only Francs 25·12½ for a sovereign, rather than which they will offer to buy bills at a rate below par, but above gold point.

EXAMPLE.—H. Floret & Cie. is a large financial house having branches in Paris and London. It buys and sells bills. In London it has bought bills which are now due for payment in Paris to the extent of 1,000,000 francs, or say £40,000; whilst in Paris it has bought bills on London for £90,000. This means that the Paris branch has paid £90,000 which will be collected by the London branch, but the London branch has only paid £40,000 to be collected in Paris; consequently the London balance is £50,000 greater and

the Paris balance proportionately smaller. Indeed, unless the London branch can buy bills on Paris and send them there for collection, it may have to send gold. On one of the days set apart in each week for the meeting of bill brokers and others at the Royal Exchange ("On 'Change"), the London representative of H. Floret & Cie. will attend with the object of buying bills on Paris to the extent of some £50,000. If the demand be greater than the supply, prices will harden, the rate of exchange becoming lower, or, to put it in plain words, brokers having bills on Paris drawn in francs, will give fewer francs for pounds sterling. Floret & Cie.'s representative may have to buy as low even as 25·12½, below which he is not likely to buy, as it will be as dear a method as sending gold to Paris. On the other hand, if the supply of bills on Paris were greater than the demand, Floret & Cie.'s representative would be offered bills on all hands, so that he will be able to buy above par, but not above 25·32½, as that is the point at which Paris may remit gold as cheaply as bills.

Besides this balance for immediate payment, there are other causes which influence the rates of exchange, one of the most important being the discount rates in the various countries. If the country against which there is a balance for payment desire to protect its reserve of gold, it must offer some inducement to foreigners who are entitled to that gold to let it remain in the country; and this it may do by offering better terms for lending money than obtain in the foreign country. The balance as between England and France may be greatly in favour of France, but if the discount rate in Paris be 3 per cent. and in England 5 per cent., French financial houses will probably not withdraw money from London, where it will earn 5 per cent., and take it to Paris, where it cannot earn more than 3 per cent. Indeed, a very great difference in the discount rate may induce the country which has a balance in its favour, not only to abstain from withdrawing gold, but even to send further gold where it can be so profitably employed. There are, of course, countries which must always offer a high rate of interest because the principal is less secure, and the

question of risk as well as interest has to be taken into account; and it may be said that a slightly higher rate of interest with equal security will not always be a sufficient inducement to attract gold. But, generally, a considerable difference between the discount rates of two countries affording equal security, results in capital being transferred to the one which offers the higher rate of interest or discount. The abnormally high bank rate during the later months of 1906 and earlier months of 1907 was the result of the determination of the Bank of England directors to arrest the outflow of gold from the country. Not only did the South American Republics continue to absorb gold, but unusual demands were made upon the Bank for gold for exportation to Egypt, and particularly to the United States of America, as a consequence of the discounting of its finance bills in the London market.

The bank rate is fixed by the directors of the Bank of England, and is the official rate of interest charged by that institution for the discounting of the best class of bills, but as only a small proportion of bills are taken to the Bank of England for discounting, a rise in the bank rate would not of itself greatly affect the market rate of money in London. The other bankers are, however, affected by such a rise, because the money placed with them by their customers on deposit bears interest at a rate which varies with the bank rate, being generally  $1\frac{1}{2}$  per cent. below that rate. Since, then, an increased bank rate necessitates their payment of a larger sum by way of interest on deposits, the bankers must, to preserve their profits, raise the rate of interest on their loans and on bills discounted. In London there is another avenue open for discounting bills, very many of which find their way to a class of financiers known as bill brokers. These people trade not alone on their own capital, but to a very large extent upon



money borrowed from the London banks, and repayable at short (a week's or even a day's) notice, and if they pay more for the money they borrow, they must perforce put up their rates for discounting bills; so that a rise in the bank rate would, under ordinary conditions, occasion an increased market rate, and money in London would secure a better return of interest, which, if of a sufficiently pronounced character, would induce gold to flow into the London market from abroad.

The International balance of payment between England and France being adverse to England, will cause a fall in the rate of exchange proportionate to the demand, but an increase in the market rate in London will arrest that demand and restore the rate of exchange, or advance it beyond par if the London market rate be very much higher than the Paris rate.

It will be observed that both in Paris and in London the rate is quoted in francs, and therefore a high rate is favourable to London, and a low rate favourable to Paris. When the rate is high, London gets more francs for a given number of pounds. When the rate is low, London gets fewer francs in exchange for pounds, and Paris pays fewer francs for pounds.

With France, Germany, Holland, Belgium, Italy, Austria, and most European countries the rate of exchange is quoted in their currency both there and in London, so that it has come to be stated as an axiom that in London, "Low rates are against us and high rates are for us." This is only true of those countries in respect of which London quotes in their currency, and not countries, as Russia, Spain, India, Japan, China, etc., where the London quotation is in pence. A high rate of exchange on these countries is in their favour, and a low

rate favourable to London. It is better, therefore, to remember that—

(a) LOW RATES ARE FAVOURABLE TO THE COUNTRY IN WHOSE CURRENCY THEY ARE QUOTED.

(b) HIGH RATES ARE UNFAVOURABLE TO THE COUNTRY IN WHOSE CURRENCY THEY ARE QUOTED.

#### EXAMPLES.

	Last quotation.	Present quotation.	Movement as affecting London.
Paris . . .	25'20	25'19	Unfavourable
Berlin . . .	20'43	20'44	Favourable
Genoa . . .	25'16	25'15	Unfavourable
New York . .	4'85	4'84	Unfavourable
Bombay . . .	1/4 <sup>1</sup> / <sub>4</sub>	1/4	Favourable
Yokohama . .	2/1	2/1 <sup>1</sup> / <sub>2</sub>	Unfavourable
Shanghai . .	2/11	2/10 <sup>1</sup> / <sub>2</sub>	Favourable
St. Petersburg .	25 (pence)	24 <sup>1</sup> / <sub>2</sub>	Favourable

London quotes on New York in pence or in dollars, but America quotes on London in dollars only.

London quotes on St. Petersburg in pence to the rouble, but St. Petersburg quotes on London in roubles to £10.

London quotes on Spain in pence to the peso (the peseta is the Spanish money of account, and five pesetas equal one peso), but Spanish cities quote on London in pesetas to the £.

In some countries, as Argentina, where an inconvertible paper money is in use, and has become depreciated in value, the depreciation is stated in the form of a rate of premium on gold.

The rate of exchange for bills due on demand at sight (sight rate) between two near countries will be the same in each of them. If the sight rate quoted in London on Paris be 25'19, that quoted in Paris on London must be the same, which is another way of stating that if 25'19 francs

will buy a bill in Paris for £100, so £100 will buy a bill in London for 25·19 francs.

Rates for bills other than at sight vary with their usance, and the rate of interest in the country in which they are payable. With a sight rate of 25·19 in London on Paris, and a discount rate in Paris of 3 per cent., a three-months' bill on Paris will be issued in London at the rate of 25·38.

Sight rate . . . . .	25·19
Three months' interest at 3 per cent. per annum	19
	<hr/>
	25·38

With the same sight rate, and a discount rate of 4 per cent. in London, a three-months' bill on London will be issued in Paris at the rate of 24·93 $\frac{3}{4}$ .

Sight rate . . . . .	25·19
Three months' interest at 4 per cent. per annum	25 $\frac{1}{4}$
	<hr/>
	24·93 $\frac{3}{4}$

Perplexing as this may appear at first, a little reflection will make it clear. A banker in London issuing a bill on Paris receives the sum in sterling at once, and if his Paris branch have to pay it at sight, he will give fewer francs for a stated number of pounds than if his Paris branch had not to pay the bill for three months.

EXAMPLE.—A merchant of London pays £1000 for a sight draft on Paris, at the rate of 25·19, receiving a draft for . . . . .

Frs. 25,190.

Another merchant pays £1000 for a three months draft on Paris, at the rate of 25·38, receiving a draft for . . . . .

Frs. 25,380

His agent in Paris discounts the draft, the rate of interest being 3 per cent. per annum.

Three months' interest at 3 per cent. per annum, equals . . . . .

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The cash value of the draft, therefore, is Frs. 25,190

Similarly, his Paris branch will issue a draft payable in London at three months for a fewer number of francs than if the bill were payable in London at once. The difference will be the rate of interest at the place of payment. The apparent confusion arises from the fact that the pound sterling is the unit in each case. Pay a pound at once, and agree to be repaid in francs three months hence, and you will get more francs than if you required immediate payment. Pay at once in francs for a pound, requiring that pound to be repaid three months hence, and you will pay fewer francs for it than if you required its immediate payment.

EXAMPLE.—A merchant in Paris wishing to remit £1000 to London, buys a sight draft at the rate of 25.19, paying therefor 25,190 francs, and receiving

£1000

Another merchant buys a draft at three months, paying for it 25,190, and receiving at the rate of 24.93½ for . . .

£ s. d.  
1010 2 0

His agent discounts it at the rate of 4 per cent. Three months' interest at 4 per cent. per annum equals . . .

10 2 0

The cash value of the draft is therefore

£1000 0 0

It should be remembered that where a country quotes in its own currency, the long rate is lower than the sight rate, and where it quotes in the 'currency of' the other country, the long rate is higher than the sight rate.

Since the London quotations (as given under the heading of "Course of Exchange" in our press) are generally for long bills on Continental centres, whilst those centres quote for short bills on London, it may happen that a variation in the one is not accompanied by a corresponding variation

in the other.\* The market discount rate may account for the difference in the long rate.

EXAMPLE.—The following figures appeared in the *Statist* of January 12, 1907:—

“COURSE OF EXCHANGE (LONDON).

Berlin, three months. Dec. 27, 20'85—Jan. 3, 20'81.

FOREIGN RATES OF EXCHANGE ON LONDON.

Berlin, short. Dec. 27, 20'50 $\frac{1}{2}$ —Jan. 3, 20'51.”

The market rate in Berlin had dropped  $\frac{1}{2}$  per cent.

The rate for three-months' bills had receded 0'04, or nearly  $\frac{1}{2}$  per cent., but the discount rate in Berlin had dropped  $\frac{3}{4}$  per cent. per annum, or about  $\frac{1}{4}$  per cent. for three months, and the alteration in the long rate was due to this change. Occasionally a deviation in the long rate may not be accompanied by a corresponding deviation in either the sight rate or the market rate, but be entirely due to a decrease in the general credit of the country of payment. At a time of serious unrest in another country, a London buyer of bills will take into consideration the risk as well as the interest, and the long rate for bills must be quoted to make some provision for that risk.

Shortly, it may be said that the sight rate of exchange reflects—

- (a) The balance of payment between two countries, and
  - (b) The relative value of coinage in those countries ;
- and the long rate is influenced by—
- (c) The market rate in the country of payment, and
  - (d) The risk of a commercial crisis there.

Between countries having a gold standard, and others having a silver standard, the price of silver has a direct bearing upon the rate of exchange, and is an additional element to be taken into account ; but there appears to be such a general effort to adopt a gold standard that

probably this latter element will shortly be very limited in its extent.

So far, only bills of exchange and gold have been referred to as means whereby international indebtedness may be discharged, but a further means is supplied by securities. There are very many securities which are daily quoted on the London Stock Exchange and the principal Continental bourses. The cost of transmitting such securities, plus the brokerage, will probably be somewhat less than the cost of sending gold, hence there is a tendency to pay in securities when the rate of exchange approaches gold point.

In addition to the so-called International securities, such as Argentine, Italian, Greek, Spanish, Brazil, Egyptian, Russian, and others, which are bought and sold here and on the Continent, there is a considerable Paris dealing in the shares of dozens of South African mining companies, whilst American and Canadian railway stocks are quoted almost as freely in London as in New York, and large shipments of these classes of securities are frequently made.

A high bank rate in London must, however, affect the amount of speculation in these securities here, as it ensures a heavy contango or carry-over rate (*a*).

The statement that "an unfavourable rate of exchange induces exports" has probably caused as much difficulty to students as anything connected with the subject of foreign exchanges; therefore an endeavour will be made to clear this point.

Certain commodities of English and of foreign manufacture possess a value which may fairly be described as stable. The London and Paris prices differ only to the extent of the cost of transmission of the goods from one capital to the other. A rate unfavourable to London

(a) See Stock Exchange, p. 214.

offers inducements to the Paris merchant to make his purchases here. With the rate at 25.25 he would pay Frs.25,250 for £1000 worth of goods, but when it has declined to Frs.25.15, he can secure the same goods for Frs.25,150, thus effecting a saving of Frs 100. The difficulty has arisen in the mind of the student, because he has started with the assumption that the English merchant will not be anxious to sell £1000 worth of goods for Frs.25,150. He has lost sight of the fact that the English merchant receives £1000, and that the Paris merchant can purchase a £1000 sight draft on London for Frs.25,150.

## CHAPTER IX.

### ARBITRATION OF EXCHANGE.

As arbitration is the settling of a dispute or account by reference to a neutral person, so arbitration of exchange is the settlement of exchange operations by a creditor in one country drawing upon his debtor in another, and forwarding the bill to a person in a third country. A. in London has a bill accepted by B. in Copenhagen, and forwards it to C. in Berlin in settlement of an account; C. acting as arbitrator, receiving the money from B. and crediting A. Similarly, London has remittances to make to Paris, and sends bills on Belgium and Switzerland.

Paris acts as arbitrator in the exchanges between London and several of the Latin countries; is, in fact, a clearing centre for them; and Berlin acts somewhat similarly for Scandinavia, Denmark, etc. It is, consequently, natural that Belgium and Swiss exchanges should move in sympathy with Paris; and that Sweden and Denmark should respond to Berlin. This will partly explain why the rate of exchange between London and Sweden or Denmark rarely gets so favourable to us as to attract gold here. Berlin would attract the gold and give bills on London in exchange.

London, however, is the great clearing house of the world, and has a rate of exchange with every country



having an established commerce. Partly due to the fact that it is a free market for gold, and that all bills payable in London are payable in gold, and partly because nearly every country has to send money to London to pay interest on loans granted here, bills on London are more esteemed than those on any other centre, and are more saleable. The American firm who ship goods to Russia and draw upon their customer, draw the bill in sterling and make it "Payable in London only"; and the East Indian merchant drawing upon his American customer adopts a similar plan. Bills of exchange representing transactions between many different countries thus find their way to London, where they are set off one against the other, "cleared" in fact, hence London is often referred to as the clearing house of the world. Many countries have, therefore, no need of a rate of exchange between each other, but practically all must have one with London.

These foreign bills are not generally held or cleared by the ordinary London banker, that being the special business of the bill broker and London foreign banker.

Arbitrage is sometimes applied to the cross transactions which might be profitable if the sight rate between two near countries were differently quoted in each.

• **EXAMPLE.**—If the sight rate in London on Paris were 25'25, and the rate for cheques, Paris on London, 25'20, a profit might be made by arbitrage. The London merchant could buy a draft for Frs.25,250, payable in Paris at sight, and forward it for collection to his Paris agent, the London merchant paying £1000, and his agent receiving Frs.25,250. The Paris agent could, by the payment of Frs.25,200, obtain a cheque on London for £1000 and post it to his London principal for collection. The London merchant thus pays and receives £1000, but his Paris agent receives Frs.25,250, and pays only Frs.25,200, making a profit of 50 francs.

• These transactions would surely follow any but the slightest difference of exchange in the quotations of the

two countries, but the opportunity does not occur, or only for the shortest period.

The sight rate is practically the same, and as the long rate is based upon the sight rate, plus or minus interest at the market rate in the country of payment and stamp duty, there can be little or no profit derived from arbitrage as applied to long bills. It must be remembered, too, that the bills will require further stamp duty when negotiated in the country where they are payable, and that some countries levy a duty of one per mille, just double that of England or France, and so a small apparent profit may be turned into a loss.

## CHAPTER X.

### BILLS OF EXCHANGE.

THE Bills of Exchange Act, 1882, supplies a definition of these most useful instruments of credit.

"A Bill of Exchange is an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer."

It must be unconditional in its terms or it is not regarded as a bill of exchange.

It must be addressed by one person to another according to the above definition, but it may be addressed by one branch of a bank or other house of business, to another branch of the same house; although where the drawer and drawee are the same person the holder of the bill may, at his option, treat it as a Promissory Note.

It must be payable either on demand or at a future fixed or determinable future date. The date is fixed where the bill is made payable at a stated date, or at stated number of days or months after date; it is determinable where the bill is made payable at a stated number of days or months after sight, that is, after the drawee has had the bill presented to him for acceptance.

„ It may not be payable at an indefinite period after the happening of an event which is certain, nor at a definite period after the happening of an uncertain event ; and the actual happening of an uncertain event does not rectify the fault. A bill drawn at thirty days after the arrival of the ship *Vesta* at Kingston, Jamaica, would not be a bill of exchange, even if the *Vesta* arrived at that port before the bill was presented for acceptance, because the arrival of the ship was not an event certain. Similarly, a bill drawn at a given date after the marriage of a person would not be a bill of exchange. ”

It must be for a sum certain in money, and that alone, and may not impose any other obligation than the payment of the money, but it may order payment to be made in instalments at stated periods, and provide that in the event of any instalment becoming overdue the whole sum shall become due. It may be for a certain sum, plus interest at a given rate from the date of the bill until maturity. The sum may be in the currency of the country of origin or in that of payment. A bill drawn upon another country, in the currency of the country in which it is drawn, may be payable at a rate of exchange fixed by the drawer, or an endorser, or will be paid at the rate current on its due date.

It must be made payable to a stated person or to his order, or to bearer. If to bearer, it is transferable by delivery and needs no endorsement ; if to a stated person, or to the order of a stated person, it is transferred or negotiated by endorsement and delivery.

#### *Acceptance.*

To preserve his rights against the drawer and endorsers of a bill, a holder must not take a qualified acceptance by the drawee. An acceptance merely noting that the bill

will be payable at a stated bank is not regarded as a qualification, but a bill accepted payable at a stated bank and there "only," is a qualification as to place.

It may not be accepted payable at a date different from that stated on the bill, for that is a qualification as to time.

It may not be accepted payable for an amount less than that stated, as that is a qualification as to amount.

If drawn upon two or more persons, not being partners, and no one of them having the right to sign for the others, the acceptance by some only and not all of them, is a qualified or partial acceptance only.

The holder of a bill must refuse to take such forms of acceptance, and if he be unable to secure an unqualified acceptance, must treat it as dishonoured by non-acceptance, or he will release the drawer and endorsers from all liabilities, unless they have assented thereto.

It must be accepted by none other than the drawee, or some one empowered to sign in his name, except that, in the event of his refusal to accept it or other act of dishonour, it may, after protest, be accepted by any person whose name does not appear on the bill for the honour of the drawer or any endorser. The acceptor for honour should write across the bill "Accepted supra protest," and it will be taken that he has acted in the interest of the drawer; the acceptor for the honour of an endorser, should write the name of the endorser for whom he acts, as "Accepted supra protest for the honour of William Stevens."

The holder of a bill due at a fixed or determinable future date generally presents it for acceptance, or negotiates it, without delay; but if due at a fixed date it is not absolutely necessary, though convenient and prudent, that it should be presented for acceptance before due, and then

for payment. If due at a determinable date, as at thirty days after sight, it must be presented without delay, otherwise the maturity of the bill would be postponed and the holder may lose recourse to the drawer and endorsers.

Presentment for acceptance must be made at a reasonable hour on a business day to the drawer or to some person who has power to accept or refuse acceptance on his behalf.

Presentment may be excused and the bill be treated as dishonoured by non-acceptance if the drawee be dead, or a bankrupt, or a fictitious person, or one who has no capacity to contract by bill (an infant, lunatic, etc.), or if, after reasonable diligence, presentment cannot be made. A holder has an option in the first two cases; he may present the bill to the personal representative of the deceased drawee, or to the trustee or bankrupt, for acceptance, or treat it as dishonoured without presentment. But the certainty that a drawee will not accept does not excuse presentment.

Foreign bills which are dishonoured by non-acceptance or non-payment must be noted and protested, and notice of dishonour must at once be sent to all the parties to the bill, except the drawee. Noting is simply a further presentment by a notary public who attaches a small note to the bill whereon he writes the reason given to him for refusal to accept or pay. A protest is a formal declaration drawn up and signed by the notary, wherein every particular of the bill is stated as well as the reason, if any, given for dishonour. It is legal evidence of due presentation and is necessary to secure to the holder his rights against the drawer and endorsers. The several parties to a bill may have given or received securities pending payment, and, failing notice of dishonour, these securities may be given up after the bill has become due; therefore notice must be

sent to them without delay or they will be released from liability on the bill.

The signature of a drawee is alone a sufficient acceptance; he has merely to signify that he assents to the order of the drawer to comply with section 17 of the Act of 1882. The bill may then be presented for payment at his business address, or failing that at his private address, or at any place where he may be found.

### *Negotiation.*

A bill may be negotiated or transferred any number of times either before or after acceptance, up to the date of its maturity.

If negotiated by means of blank endorsement (the simple signature of the person to whose order it is payable), it becomes payable to bearer and requires no other endorsement on further negotiation. The holder of a bill bearing a blank endorsement of a previous holder, may transfer it without endorsement and will not incur any liability, but he warrants to his immediate transferee that it is what it purports to be, that he is entitled to transfer it, and that he is not aware of any defect in the bill. If endorsed specially to the order of another person the bill requires that person's endorsement, and some bills bear very many special endorsements, so many in fact that the back of them is completely covered, and the holders find no room for their endorsement on the original document. They are allowed to gum a piece of blank paper to the bill and write their endorsements thereon, usually writing partly upon the original and partly upon the allonge, as the new paper is termed. Bills may also bear restrictive endorsements which prevent their further negotiation.

Any holder of a bill bearing a blank endorsement may

alter it to a special endorsement. For example, B. Adams endorsed a bill in blank and pays it to Jas. Bolton, who wishes to pay it to Wm. Collins. Jas. Bolton may write, above the signature of B. Adams, the words "pay to the order of W. Collins," and his (Bolton's) name need not appear on the bill. Instances of this kind are rarely met with, as Collins would have no claim against Bolton if the bill were dishonoured. In many countries a bill cannot be negotiated without the endorsement of each transferrer, and on the continent bills are transferred much more frequently than is usual in England; hence the allonge is more often met with in foreign than in English bills.

The liabilities of the several parties to a bill which has been dishonoured by non-acceptance or non-payment may here be stated. Every endorser is liable to a subsequent holder, and the drawer is liable to any holder. The holder of a dishonoured bill may proceed against any endorser or the drawer, or may even proceed against all of them, though he can only recover payment from one. Should any endorser be a minor or other person not having capacity to contract on a bill, he will incur no liability, nor will any endorser who writes above his signature "sans recours," or "without recourse to me." And if a person becomes for the second time an endorser to the same bill, all endorsers whose names appear between his first and second endorsement are released from liability by what is called "circuitry of action."

EXAMPLE.—A bill bears the following endorsements, viz. —

pay to the order of Wm. Browning  
James Stevens.

pay to the order of Robert Johnson  
Wm. Browning.



pay to the order of J. W. Crofts  
Robert Johnson.

pay to the order of M. Dover  
J. W. Crofts.

pay to the order of Wm. Browning  
M. Dover.

pay to the order of John Fowler  
Wm. Browning.

pay to the order of F. Smith  
John Fowler.

Robert Johnson, J. W. Crofts, and M. Dover, are not liable on the bill.

If the holder sued Browning, and Browning could sue Dover or Johnson or Crofts, any of these would have a right of action against Browning as a prior endorser, and they are not held liable to Browning as a subsequent endorser.

Sometimes a bill is issued in Germany in two parts, the one marked for acceptance only and the other used for negotiation, the latter bearing the German revenue stamp. These bills are drawn payable at a given period after sight, and as they are often negotiated many times before they reach London, the first part is sent immediately for acceptance to ensure maturity as early as possible, and is held at the disposal of the person who presents the second. The two parts, one bearing the signatures of the drawer and drawee, and the other the signatures of the endorsers, are then attached to each other and become a complete bill.

Where the amount of the bill is stated differently in words and in figures, that stated in words will be the sum payable.

#### *Re-exchange.*

The holder of a bill which has been dishonoured is entitled to charge to the drawer or endorsers the amount

of the bill, plus noting and protest charges, interest from due date to date of payment, and any expense incurred in re-exchange, or loss occasioned by transferring the amount again into the currency of the country of issue at the current rate, which may be more unfavourable.

A holder in due course is one who has given value for the bill and taken it in good faith before it is overdue. To such a holder a bill of exchange is a negotiable instrument.

#### *Forgery.*

A forged signature to a bill destroys any rights of holders subsequent to the forgery. If the forgery is that of the name of the drawer, the bill is void; if that of an endorser, the subsequent holders have no right to the bill, which can be claimed by the person whose signature was forged.

A bill may be dated prior to the day on which it is drawn, and is called an ante-dated bill, or at a date subsequent to the day on which it is drawn, and is called a post-dated bill, or it may be dated on a Sunday. The holder of an undated bill may fill in what he believes to be the true date, and such date becomes actually the true date.

#### *Accommodation Bills.*

An accommodation bill is one which has not for its basis a trade transaction, but in which a person accepts a bill to accommodate another without receiving value. The acceptor is not liable to the drawer, as the latter is not a holder for value, but he is liable to any subsequent holder for value, even though that holder knew it to be an accommodation bill. A. accepts a bill for B., for which he has not received value, B. promising to pay it at

maturity, and B. has no claim against A. But if B. negotiate it to C. who gives value for it, A. is liable to C., whether or not he knew the facts.

### *Finance Bills.*

Finance bills are bills drawn by one country upon another which do not represent a debt yet contracted, nor goods yet shipped. They are drawn in advance of the shipment, and are often long-dated bills. The object is to secure financial assistance before the goods are ready for export, and they may be quite legitimate when their character is known, the country of origin is one whose ports are closed to winter navigation, and the exportation of goods is sure to follow in time for their arrival in the country of payment before the bills fall due. They may, however, become an abuse where these conditions are not fulfilled, as in the case of the finance bills drawn by American banks upon their agents in London, accepted there and discounted in the London market as bankers' drafts, in order to secure a withdrawal of gold from the Bank of England for export to New York.

### *Promissory Notes.*

A promissory note is a bill signed by the maker of it promising to pay on demand, or at a future date, a sum of money to or to the order of a specified person or to bearer. The maker, who signs the bill, is the debtor and the payee is the creditor. Like a bill of exchange, it is a negotiable instrument, though not nearly so commonly met with in trade. If signed by two or more persons not being partners, it may be a joint, or joint and several note; the liability of the signatories being joint only, unless otherwise stated. Upon a note for £100 signed by two

persons, the liability of each is limited to £50, unless it reads, "We jointly and severally promise to pay," in which case either is liable to the holder for the full amount.

The laws governing bills of exchange apply also to promissory notes, with few exceptions, notably the freedom of a holder from necessity for protest in the event of dishonour, even though it be a foreign note. (a) "

(a) See p. 53 as to bills where the drawer and drawee are the same person.

## MARINE INSURANCE.

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### INTRODUCTION.

THE total value of the exports and imports of the United Kingdom for the year 1906 exceeded £1,000,000,000, and a very large proportion of the goods represented by this vast sum was insured in England, either by Lloyds' Underwriters, or by the several marine insurance companies whose central offices are situate in London.

Almost every industry is concerned with shipping and marine insurance, and yet the latter is almost an unknown quantity to merchants who insure, and has not, until quite recently, found a place in the higher commercial education system of this country.

The importance and the general lack of knowledge of this subject have been recognized by the London Chamber of Commerce, with the result that it now forms a distinct part of their syllabus of the "Methods and Machinery of Business."

It is a subject, too, full of interest, but of a technical character; and in addressing this work to commercial students, the object has been to avoid technicalities as far as possible, and to present marine insurance in an easy and interesting manner.

## CHAPTER I.

### AFFREIGHTMENT.

FREIGHT is the term given to the earnings by a shipowner from the employment of his ship to carry goods, and the contract into which he enters with the shipper is called a contract of affreightment. These contracts are of two kinds, (1) a Bill of Lading, and (2) a Charter Party. The form most commonly used is the bill of lading, which is, in the first place, the captain's signed acknowledgment that certain goods have been received "in good order and well conditioned" on board his ship; in the second place, his undertaking to deliver them "in like good order and well conditioned" at the port of destination; and, in the third place, there is a long list of risks in respect of which he will accept no liability. It is because of these exceptions, because of the dangers which beset the goods upon the voyage, for which the shipowner will not be responsible, that the merchant or shipper has recourse to marine insurance. There seems to be no end to this list of exceptions, and it would appear that shipowners intend to whittle away their liability to the shipper until they have no responsibility beyond the mere conveyance of the goods. The cry is for cheap freight, and the shipowner supplies the demand, but reduces the protection afforded to the shipper.

This very important document, the bill of lading, is known as a "document of title;" that is to say, it is evidence of title to the goods named upon it. It is also transferable by endorsement, which means that the person to whose order the goods are stated to be deliverable may transfer the rights to, and property in, those goods to another person by writing his name on the back of the bill. A shipment of goods may be, and often is, sold in this manner, even before the arrival of the ship which carries them; and the holder of a bill of lading, duly endorsed, has as much right to the goods as had the person from whom he received it. Every shipper understands its importance in this respect, but comparatively few seem to recognize the importance of the various clauses contained in it, or even take the trouble to read them. It is obvious to him that the copious wording implies something, and he may be aware, perhaps, that all bills of lading are not worded precisely alike; but he rarely takes the trouble to master them, although they form the basis of his contract with the shipowner for the safe conveyance of his valuable goods to some distant port. When his goods have been damaged or lost, he has looked to the insurers (underwriters) to recompense him for the loss, and has some notion that either the shipowner or the underwriter must be held responsible for all losses—that where the liability of the shipowner ends, that of the underwriter begins.

Probably no two other documents are so little understood by the average man who habitually handles them as a bill of lading and a marine insurance policy. In the one he contracts with the shipowner or shipbroker for the conveyance of his goods on stated conditions of which he knows little; in the other he contracts with the underwriters to insure his goods against certain perils, without

quite knowing what perils he is insured against. As we have said, he has an idea that one or the other must be liable for all his losses, and, if this be so, he need not concern himself about the conditions of a bill of lading. But it may happen that, by an express condition of the bill of lading, he has contracted away some usual rights against the shipowner without being adequately protected by the terms of his insurance policy. For example, a shipowner is usually responsible to a shipper for the pilferage of goods whilst in his possession (and pilferage is not a very uncommon cause of loss), yet some modern bills of lading place this risk among the exceptions, as to which it is agreed the shipowner is exempt from all liability. An ordinary policy of marine insurance does not cover the risk of pilferage, and, unless it be specially embodied in the policy, the underwriters are not liable for any loss arising from this cause. The owner of the goods must bear the loss, and will probably consider that he has been unfairly treated by the underwriters, who knew nothing of the conditions of his contract of affreightment.

Few shippers care to take upon themselves the risks incidental to the conveyance of their goods by sea, hence the large volume of marine insurance business in respect of cargo; and only a very limited number of shipowners are content to bear the risks to which their vessels are so constantly exposed, hence the magnitude of the insurance on ships. Even freight-owners, whether shipowners or charterers, prefer to pay a modest premium to secure their freight, rather than risk the loss of freight which would attend a loss of cargo.

If we look at the exceptions clause of a bill of lading, we shall find that the risks enumerated therein correspond fairly with the risks mentioned on a policy of insurance,



as those which the underwriters are contented to bear and do take upon themselves. Where they exactly agree, the shipper has complete indemnity.

Complete indemnity, or complete recompense for losses sustained, is what the owner of ship or cargo or freight usually desires; and the measure of his indemnity as against all and every other person, whether under contracts of affreightment or insurance, will be discussed in the following pages.

Even where the liability of a shipowner is beyond dispute, there is a limit to its extent. The Merchant Shipping Act, 1894 (*a*), enacts that the full measure of a shipowner's liability in respect of goods carried shall not be greater than a sum equal to £8 per ton of his ship's register tonnage. If valid claims were made, amounting in the aggregate to £12,000, and the register tonnage of the ship were 1200 tons, the total sum payable by the shipowner would be but £9,600; and this £9,600 would be distributed *pro rata* among the claimants, each receiving eighty per cent. of the amount of his proved claim. Where there is loss of life or personal injury in conjunction with loss of goods, the position of the cargo-owner is even less secure. The addition of claims for loss of life or personal injury increases the liability of the shipowner from £8 to £15 per ton, but, as will be seen by the following example, the cargo-owner may be a greater sufferer by reason of the inclusion of such claims. In apportioning the total sum payable by the shipowner, £7 per ton will be set aside for the benefit of life or personal injury claims, and any balance of those claims will rank equally with property claims on the remaining £8 per ton.

(a) 57 & 58 Vict. ch. 60, s. 503.

*Loss of Property or Cargo only.*

Total value of proved claims	£12,000
Liability of shipowner—	
1200 tons register at £8 per ton	9,600
Claimants receive $\frac{96}{120}$ , or 80 per cent. of their claims.	

*Loss of Life and Property.*

Total value of proved claims—	
For loss of life, or personal injury	£10,000
For loss of property	12,000
	<u>22,000</u>
Liability of shipowner—	
1200 register tons at £15 per ton	£18,000.

## APPORTIONMENT.

Claims	Allotted to						
	Life.			Property.			
	£	s.	d.	£	s.	d.	
10,000 Life claims, etc.							
8,400 £7 per ton apportioned to life claims ... ..	8,400	0	0				
1,600 Balance of life, etc., claims, $\frac{1}{4}$ ths apportioned ... ..	1,129	8	3				
12,000 Property claims, $\frac{1}{4}$ ths apportioned				8,470	11	9	
13,600 Claims on a liability of £9,600 (£8 per ton) = $\frac{1}{4}$ ths, or 70·59 per cent. ... ..							
	£	9,529	8	3	8,470	11	9

Property claims receive only 70·59 per cent., instead of 80 per cent., as in the former instance.

Claims will only be admitted if the loss be one for which the shipowner is liable, according to law and the conditions of the contract of affreightment.

Let us now refer to the facsimile of the bill of lading, to determine which of the perils to which goods may become exposed are, and are not, at the risk of the shipowner (see p. 25).

The perils and dangers to which they may become exposed during the voyage may be classified as perils which do arise and perils which do not arise from the actions of individuals.

The perils which do not so arise, but are due to other causes, include storm, lightning, wind, waves, seas, and fire, losses arising from all of which are recoverable under an ordinary insurance policy; and also improper stowage and the depredations of rats, or other vermin, for which the shipowner and not the underwriter is often responsible.

Perils which arise from the actions of individuals who are on board the vessel in which the goods are carried, include jettisoning (throwing overboard) or otherwise sacrificing the goods for the common safety, the loss being recoverable in general average under the policy (see Chapter II.); barratry of the master or mariners, insured in an ordinary policy; and pilferage, or clandestine theft, for which the shipowner is liable.

Perils which arise from the acts of persons not on board the ship include pirates, a risk covered by the policy; enemies, takings at sea, restraints and detainments of kings, princes, or peoples, etc.; these being at the risk of the underwriters unless declared "free of capture and seizure," and as to which no liability attaches to the shipowner.

A *Charter Party* is the form of contract of affreightment usually adopted where the cargo-owner has so large a cargo that he hires the whole of the ship, or where he hires the whole ship for the conveyance of his own goods, plus those of other shippers who pay

him the freight. A charterer is a hirer, and is one of the parties to the contract, the other party being the owner of the vessel. A ship may be chartered for a voyage, or for a period of time; and although the whole of the cargo space of the ship is at the disposal of the charterer, the vessel generally remains under the control of the owner's captain, and the provisions and ship's stores, as well as the wages of the crew, are paid by the shipowner. If the freight agreed upon, as the consideration for hire, be not payable until the ship reaches her destination, the captain may there demand it before landing the cargo. The owner of a ship has a "lien" on all goods he carries for the amount of freight due; that is to say, he has a right to retain possession of goods of which he is not the legal owner until payment of a debt due to him for the conveyance of the goods. Where a ship is chartered for a voyage, the time occupied is of considerable moment to the owner, as it keeps from him the use of his ship; but so far as time occupied in proceeding from one port to another is concerned, that is a matter under the control (as far as it is possible of control) of his captain. But the number of days to be occupied in unloading and loading at a port is affected by the arrangements of the charterer, who may or may not have the goods ready at hand for the loading, and require, therefore, to detain the ship for some time. There must be time occupied in loading and unloading, but an unreasonable detention deprives the owner of the use and profit of his ship; and to prevent any difficulty at a later date, a charter party usually states the number of "lay-days" allowed. This number may, however, be exceeded, and another clause in the document fixes the amount per day, by way of fine, or "demurrage." Demurrage is a term applied to the detention, or cost thereof, of any vehicle, be it ship, lighter, waggon, or van.

Before it can be determined who is liable for a loss (the shipowner or the underwriter), the cause of the loss must be ascertained, and the process of arriving at the primary cause may be attended with difficulty. The immediate cause may very well be the effect of an anterior cause, which was produced by another cause, and so on, and to discover the first cause would entail great care and research, as the further we go back the greater will be the degree of uncertainty. There is, however, one golden rule to guide us. The immediate or nearest cause, or proximate cause, or *causa proxima*, is the cause to which the loss shall be attributed, and a simpler rule could not be found. Fortunately, too, this rule admits of no exception, even where abundant proof of a previous cause exists. The well-known case of rats gnawing the pipe leading from the bathroom of a ship, and so admitting sea-water into the hold, to the detriment and damage of some of the cargo, is a proof of the absoluteness of this rule. Damage to cargo, if caused by rats, is a risk of the shipowner and not of the underwriter; whereas damage caused by sea-water is a risk of the underwriter. The immediate cause of the damage was sea-water; the remote cause, the rats which gnawed a hole in the pipe. The Court decided that sea-water was the cause of damage, that it arose directly from the action of the sea, and the underwriters were held liable.

The captain or master of a ship is primarily the agent of the shipowner; he may also act in the capacity of agent of the charterer, and, under special circumstances, become virtually the agent of the cargo-owner. His powers are very extensive. If, in consequence of damage to his ship, and the impossibility of his continuing his voyage, he puts into some port to effect repairs, he may practically pledge his ship to provide funds for such repairs, giving a bottomry bond—a mortgage of his ship—to become due and payable

if and when she arrives at her port of destination. He may even pledge cargo as well as ship in this manner if necessary, and the bond is then termed "Respondentia." The circumstances under which this was often done formerly seldom obtain nowadays, and there are few ports from which he cannot communicate with his owner by cable. A captain may, under stress of circumstances, sell part of the cargo; as, for example, where it is of a perishable nature, and his enforced detention at a port of refuge is of so lengthened a character that the goods would perish before arrival at the port to which they were consigned. (b)

(b) It is necessary to exercise the utmost care in this case to ascertain that a sale is an immediate necessity; and, if possible, the master must communicate with the cargo-owner, and should the latter refuse to allow the goods to be sold, however unreasonable he may be, the master has no right to sell them. On this subject see *The Australasian Steam Navigation Co. v. Morse* (1872), L. R. 4 P. C. 222; and *Acates v. Burns* (1878), 3 L. R. D. 282.

## CHAPTER II.

### GENERAL AVERAGE.

FROM the earliest times, ages before the introduction of marine insurance, a law of "general average" was in force among maritime nations. (a) It was recognized that the master of a vessel must be empowered to throw overboard any portion of the cargo, or part of the ship, where such a sacrifice of part of the property was needed in the interest of the whole. Where circumstances have arisen which place the whole adventure in great jeopardy, and the only means of saving a part is by casting overboard another part, the sacrifice is justifiable. But it would not be equitable for the person whose goods were jettisoned (thrown overboard) to bear the entire loss; his loss should be neither greater nor smaller than that of all other persons concerned in the adventure. The ship itself and the remainder of the cargo have been saved by this sacrifice, and their owners must recompense the owner of the jettisoned cargo. Primarily, the loser will look to the captain for this recompense, and the captain must collect from the other cargo-owners their proper contribution.

As originally general average applied only to cases of jettison, and this is the simplest form known, we will give an example of its application.

(a) The principle of a "general average" contribution is derived from the ancient law of Rhodes, being adopted into the Digest of Justinian, and the wisdom and equity of the rule will do honour to the memory of the State from whose code it has been derived, as long as maritime commerce shall endure—Abbot's "Merchant Ships and Seamen."

A ship was valued at £20,000, and had on board goods belonging to several owners, as follows, viz. A., 20 packages valued at £1000; B., 50 packages valued at £2000; C., 70 packages valued at £3000; D., 40 packages valued at £1000; E., 100 packages valued at £2000; and F., 15 packages valued at £1000.

During a storm which had arisen, and driven it out of its course, the ship grounded, and the captain recognized that the only hope of safety lay in jettisoning some of the heavier cargo, so that the ship, being rendered much lighter, might float on the incoming tide. He jettisoned the fifteen packages belonging to F., the vessel was re-floated, and in due course reached her port of destination. Before he would release the goods belonging to A., B., C., D., and E., he required from them the several sums due on account of general average, but as the ascertainment of the exact sums would require time and labour, he took from each of them a certain sum, together with their bond for the payment of the balance. This is known as an "average bond." The work of adjusting the loss was placed in the hands of an "average adjuster," who prepared a statement, showing (1) the total value of the whole adventure; (2) the loss occasioned by the jettison; (3) the proportion the loss bore to the total value; (4) the application of that proportion to all interests concerned, showing the amount payable on account of each.

(1) Value of ship	£20,000
Value of Cargo —	£
A's cargo	1000
B's "	2000
C's "	3000
D's "	1000
E's "	2000
F's "	1000
	<hr/> 10,000
Total value of adventure	£30,000



(2) Loss occasioned by the adventure £1,000

(3) £1000 loss on a total of £30,000  
represents a loss of  $3\frac{1}{3}$  per cent.,  
or £3 6s. 8d. on each £100.

(4) Proportion to be borne by the  
various interests—

Shipowner, $3\frac{1}{3}$ per cent. on £20,000 =	£	s.	d.
		66	13 4
Cargo owners:—	£	s.	d.
A. $3\frac{1}{3}$ per cent. on £1,000 =	33	6	8
B. „ £2,000 =	66	13	4
C. „ £3,000 =	100	0	0
D. „ £1,000 =	33	6	8
E. „ £2,000 =	66	13	4
F. „ £1,000 =	33	6	8

333 6 8  
£1000 0 0

F. will, therefore, receive £1000 less the amount of his contribution to general average, £33 6s. 8d., his net receipt being £966 13s. 4d. In proportion to the value of his interest, he suffers exactly the same as those whose goods were saved.

In the foregoing example, the question of freight is not treated separately, every shipper being presumed to have paid freight in advance, and to have included its cost in the value of his goods. Where, as is very general, freight is payable at destination, the ship, cargo, and freight is taken into account.

The principle of general average having been recognized, its application has been extended to all losses which are occasioned by a sacrifice of part for the benefit of the whole, and this extension includes a variety of losses other than jettisons. One very common form is the sacrifice of goods by damage from water in the extinguishment of a fire on board ship. Where there is fire in one of the

holds of a ship, the captain may cause water to be pumped into that hold to put out the fire, and in so doing the water may damage goods which are not on fire as well as those which the fire has reached. In such a case, when the water has served the purpose of extinguishing the fire, it will be pumped out of the hold, and upon the arrival of the ship at its destination, each package will be scrutinized; the damage to those which bear any sign of fire will not be recoverable in general average, as they were in no sense sacrificed; but any water-damage to goods which had not been touched by fire will be made good in general average, as they were damaged on behalf of the general safety.

A ship may, owing to untoward circumstances, be so long delayed upon her voyage that she runs short of coal, and, for the purpose of getting her to a coaling port, the captain may have recourse to consuming part of the cargo as fuel. Provided that she started from her last port of call with a reasonable supply of coal, the loss of the cargo consumed as fuel must be made good in general average, as it was a sacrifice made in the general interests of the adventure.

Expenses incurred by the captain for the general safety are also recoverable under this heading. Damage to a propeller may render a ship so unmanageable as to be quite helpless, and necessitate the employment of a tug or other vessel to tow her to a port of repair, in which case the cost of towage and inward port dues must be borne proportionately by all interests concerned. The application of general average to expenses incurred *after* the arrival at the port, depend upon the circumstance giving rise to the necessity of entry into the port. According to English practice, if the cause necessitating procedure to the port were a particular average (*b*) damage to the ship, the

(*b*) For explanation of this term see Chapter X.

expenses after arrival at that port are not general average expenses; whereas, if the damage to the ship were recoverable in general average, then all subsequent charges to and at the port of repair are general average charges. Where a ship is stranded, and the captain decides to attempt to float her at the imminent risk of damaging or breaking her propeller, he practically elects to sacrifice a part of his ship for the benefit of all concerned in the adventure, and the consequent damage to the ship necessitates recourse to a port for repair. The expenses of towage, inward port dues, unloading and warehousing of cargo, repairs to ship, reloading of cargo, and outward port dues are all included in general average. (c)

Where the damage to the propeller was the result of an accident, and, therefore, not a sacrifice, there is still a necessity to proceed to port in the general interest, and the towage and inward port dues are general average charges; but the safety of the adventure being attained, the cost of warehousing the cargo, repairing the ship, and outward port dues have to be borne by the separate interests; the warehousing is a particular charge upon the cargo, the repairs a particular charge upon the ship, and the reloading and outward port dues a particular charge on the freight. (d) In fact, the expenses must be borne by the same people who would bear them at the port of departure. Under whichever set of circumstances the ship proceeds to a port of repair, English law does not include in general average either cost of maintenance or wages of the crew during detention there.

Upon these two points, namely, (1) Expenses at the

(c) This rule has been laid down by the Association of Average Adjusters, and embodies the decisions in *Atwood v. Sellar* (1880), 5 Q. B. 1), 286.

(d) This is a rule of the Association of Average Adjusters, and embodies the decision in *Svensen v. Wallace*, (1883), 10 App. Cas. 404.

port of refuge where the originating cause is a particular average damage to ship, and (2) Wages and maintenance of crew at that port, the English law is at variance with that of most other countries and the set of rules known as the York-Antwerp Rules. These latter, generally, rule that if the cost of unloading or discharging the cargo is admitted as general average, so shall also the storage and reloading and outward port dues, as well as the wages and cost of maintenance of the crew during the period of detention.

General average implies a sacrifice which must be reasonable and voluntary, incurred of necessity, in face of a common danger, and result in the saving of property which was imperilled. The cutting down of a mast may be a sacrifice, but the mere cutting adrift of a mast already wrecked is not a sacrifice.

The loss to any goods, or stores, not ordinarily used for spars or rigging (*Jury rig*), requisitioned for that purpose to enable a vessel to reach port, is to be made good in general average.

Throughout this chapter, general average has been treated as a subject quite apart from marine insurance. It is really part of the law of affreightment, and the ship-owner or charterer, and cargo-owner, are subject to this law independently of the question of marine insurance. It has become interwoven into marine insurance because the underwriters have taken upon themselves the risk of a general average loss, and of a general average contribution; they insure ship and goods to cover any loss caused directly to the subject-matter of insurance, or any contribution levied upon it by reason of a general average loss. But, although they were always ready to pay, directly, any contribution towards the loss of other cargo demanded of the assured, the underwriters expected the

owner of sacrificed cargo to collect from the captain or shipowner the contributions of other owners, and to call upon them to make good the deficiency—the loser's own contribution. They held that, as underwriters, they were only liable for the "contribution" to general average which was due by the assured; and it was, therefore, the duty of the assured, who sustained a general average loss, to collect the contributions of others, and call upon them to pay his own. It has been decided in our courts that the underwriters are liable to the assured for the whole sum of his loss, he subrogating or assigning to them his rights against the other owners for their contribution. (e) Underwriters now pay the loss in full, and themselves collect the contributions of the other parties liable thereto.

It may be added that, since bills of lading are sometimes worded to make York-Antwerp and other rules apply to the contract of affreightment, there is often a small slip attached to the policy of insurance, on which it is stated, "General average according to foreign statement if so made up, or as per York-Antwerp rules if in accordance with the contract of affreightment."

(e) *Dickinson v. Jardine*, L. R. 3, C. P. 639.

## CHAPTER III.

### NATURE OF THE CONTRACT—COURSE OF BUSINESS.

MARINE Insurance, like fire insurance, is a contract of indemnity—a contract to recompense for loss or damage sustained—and although the attainment of perfect indemnity is a matter of difficulty, because of the fluctuations in the market values of commodities in the country to which they are consigned, the underlying principle of this class of insurance is that the assured may not make a profit out of a disaster, but may only be recompensed for the actual loss sustained. It is clear, therefore, that no insurance can be legally effected upon anything in which the assured has no financial interest, or “insurable interest” as it is termed.

“Insurable Interest” has been defined as “being placed in such circumstances with respect to the thing insured as to have benefit from its existence, prejudice from its loss.” The Marine Insurance Act, 1906 (6 Edw. 7. ch. 41), defines the contract thus :—

“A contract of marine insurance is a contract whereby the insurer undertakes to indemnify the assured, in manner and to the extent thereby agreed, against marine losses, that is to say, the losses incident to marine adventure.”

But it further enacts (Section 2), that this may include, by express terms, or by usage of trade—

"losses on inland waters or on any land risk which may be incidental to any sea voyage."

Every contract of marine insurance must be expressed in a "Policy," which must bear an impressed stamp. (a)

The parties to the contract are the insurer or underwriter, and the assured or his agent.

The subject-matter of the insurance may be—

A ship; which may be insured for its full value by the owner, or insured by a mortgagee to the extent of his loan, or by the lender of money on a bond of bottomry or respondentia, or by a part-owner for the value of his share.

Cargo; which may be insured for its value by the owner or his agent, or other person having an insurable interest in it.

Freight, passage-money, etc.; which may be insured by the person to whom it will become due: or if advance freight, by the person advancing it.

Wages of the master or crew of the vessel.

Re-insurance by an underwriter who has taken a risk upon the thing insured.

The utmost good faith on the part of assured and underwriter is absolutely essential to the contract.

The total sum assured must be indicated upon the policy, and the particular risks which the underwriter takes upon himself to bear should be clearly indicated.

The rate of premium paid as consideration by the assured must be stated, and the name or names of the underwriter or underwriters must be written under the conditions.

Underwriters frequently enter into contracts with people who have not a semblance of insurable interest in the

(a) For Value of Stamps necessary, see p. 85.

thing insured, and will mark the policies "P. P. I." (policy proof of interest), or "Interest or no interest," or other words signifying that they will not enquire into the question of interest. Such policies are not, of course, contracts of indemnity, and have never possessed any legal value, though losses are paid as a matter of honour. They are merely "wager" policies, or "honour" policies.

*Course of Business.*

A person desirous of obtaining an insurance against marine risks may elect to apply to one of the many first-class marine insurance companies, or to Lloyds' underwriters. In the former case, he may or may not secure the services of a broker; in the latter case, he must do so.

An insurance broker's relationship to his client requires him to act, like any other agent, in the best interests of the client; but, unlike other classes of agents or brokers, he is paid by the underwriters or company, and not by his principal (client).

The broker writes down on a "slip," in a very abbreviated form, the name of the assured or his agent, the subject-matter of the insurance, the risks against which it is desired to insure, the voyage or time during which the insurance is to last, the rate of premium to be paid, and any other particulars which will assist the underwriter in determining the real nature of the risk. With this slip he enters the underwriters' room at Lloyds', or the office of the company, as the case may be.

[Slip of Floating Policy (see p. 108)].

CARD AND CO.

£80,000.

Cargo Str. or Strs., London to Melbourne and Sydney, sail 31/12/07  
incl. warehouse, U.K. to consignees. In event loss before decl.



cost and 20% pft. Incl. pft. F. C. and S. Av. ea. pkg. or on whole.

6/8 P. and O., and Orient. F. P. A. or Zinc or Tin.  
 10/- do. Bale goods or Wood  
 only W. A.

Others Covered, etc.

£	
15,000	T. James, 17/12.
5,000	W. L. A., 17/12.
4,000	R. Stevenson.
3,000	W. L. Claven, 18/12.
15,000	W. S.
15,000	C. E. K. W.
5,000	R. Sanderson
25,000	E. V. V.
6,000	E. G. Graham.
12,000	T. J. W.
15,000	H. W. V.
7,000	J. V. Campden.
<u>80,000</u>	

If an insurance company undertake the risk, they will probably underwrite the whole of it, and may at once issue a covering note, advising the assured that he is held covered against any loss pending the preparation of the policy. If Lloyds' underwriters are approached, each one deciding to insure a part of the risk will initial the slip and state thereon the sum he will insure, and the broker will continue placing the slip before various underwriters until the total of the several sums insured reaches the amount desired. Upon the completion of the slip, the broker will write out a policy upon Lloyds' form, which has been previously stamped in accordance with the provisions of the Stamp Act, 1891 (54 and 55 Vict. ch. 39). The policy will then be taken to every underwriter whose initials appeared upon the slip, and they will sign their names under the conditions of the policy, thereby becoming "underwriters."

The "slip" and "covering note" have always been binding in honour, as being an undertaking to issue a policy, but it has always been held in our Courts of Law that they had no legal value. Every contract of marine insurance must be written on paper bearing the revenue stamp, and the stamp must be impressed upon the policy before it is signed; (*b*) the slip or covering note is not a stamped document, being intended only as a temporary contract pending the issue of the policy; therefore the contract is unenforceable until the policy has been issued. The new Act of 1906, section 21, reads:—

"A contract of marine insurance is deemed to be concluded when the proposal of the assured is accepted by the insurer, whether the policy be then issued or not; and for the purpose of showing when the proposal was accepted, reference may be made to the slip or covering note or other customary memorandum of the contract, although it be unstamped."

This must not be taken to mean that, in the event of any loss, the underwriters may pay a claim upon the production of the slip, as the Stamp Act (1891) imposes a penalty of £100 for settling claims other than under a properly stamped policy. The contract is, like other contracts, concluded upon proposal and acceptance, but the issue of a policy is nevertheless necessary.

#### *Stamps.*

The stamp duties on policies of sea insurance are as follows, viz. :—

(*b*) An exception is made where the policy is executed outside the United Kingdom, such a policy being capable of being stamped if presented for that purpose within ten days of its first arrival in this country.

By the Stamp Act, 1891—

- (1) Where the premium or consideration does not exceed the rate of  $\frac{2}{6}$  per cent. of the sum insured ... One penny. (c)

By the Finance Act, 1908, s. 5—

- (2) In any other case :—

(a) For or upon any voyage whether relating to cargo or ships :—

In respect of every full sum of £100, and also any fractional part of £100 insured ... One penny.

By the Stamp Act, 1891—

- (b) For time :—

In respect of every full sum of £100, and also any fractional part of £100 insured :—

for any time not exceeding 6

months ... 3d.

exceeding 6 and not exceeding

12 months ... 6d. (d).

“Sea” insurance, to which alone this stamp duty is applicable, has been defined to mean insurance of any adventure upon the seas or tidal waters, and does not apply to adventures on inland rivers, canals, or lakes ; policies on such risks need only bear a penny stamp.

#### *Lloyds' and Insurance Companies.*

Lloyds is an incorporated society performing many functions. One of the functions usually associated with the name is that of marine insurance, but the corporation does not, in its corporate capacity, transact any insurance business, that being left to its individual members called underwriters. The corporation does, through its committee, take care that only reliable men shall perform this

(c) This stamp of one penny is for any amount, and is not an ad valorem stamp duty.

(d) A time policy may not be for more than twelve months.

duty, and exacts from each new member a deposit of valuable securities, which it retains as security in case of default or failure of the member. The liability of each underwriter is strictly limited to the amount he has underwritten, and the failure of another whose name appears on the same policy does not increase his liability. The coincidence of default by an underwriter and a loss on which he held a part risk leaves the assured uninsured for that portion; but he may recover part of his loss upon the liquidation by the committee of the securities in their possession. The risk of loss through failure of an underwriter is so small, however, that some brokers are prepared to guarantee the solvency of every signatory to their policies. Lloyds' underwriters are well known to engage in various classes of insurance which have not the remotest connection with marine risks, but the securities they lodge are held as against the latter only.

The business is not one of hazardous speculation, but of careful calculation. The premium required for every line and class of ship, for every voyage, for every class of cargo, etc., is determinable; and if the underwriter be guided strictly by the data at his command and distribute his risks in such a manner that he has almost numberless small ones and none very large, the result should be a profit. With the best connections with the brokers and the closest calculations, it is difficult in these days to make the margin of profit great, by reason of the fineness of the rates of premium, which the system of cutting has brought too low, and in respect of which some alteration is desirable.

If an underwriter consider that any one risk of his is disproportionately large, he will re-insure part of it with another; and some very safe men will even re-insure, at an enhanced premium, those risks which have become

hazardous by a vessel being overdue or reported in a bad condition.

The vast machinery at Lloyds', with agents in every part of the maritime world, enables the members to gain the earliest intelligence of any disaster, and the known movements of every vessel are duly reported. The prolonged delay in a ship reaching the port to which she is bound will, especially if she have not been "spoken" on her voyage, cause a marked rise in the quotations for her insurance or that of her cargo; some underwriters re-insuring at high premiums, "cutting their loss," and others taking the greater risk for the sake of larger premiums. Whenever the committee consider the delay to be so great as to warrant it, they post the ship as "Overdue," and this sends up the premium to a high figure.

The absence of news in the near future may determine the committee to post the vessel as "Missing," when all claims must be settled. It is, indeed, the official notification that the fate of the ship is beyond reasonable doubt, and that her loss is presumed. Occasionally, news of her safe arrival reaches London after this official notice and consequent settlement, but this will be dealt with in a later chapter.

### *Marine Insurance Companies.*

Several well-known powerful companies engage wholly in marine business, whilst others have one branch devoted to that class of risk. They will underwrite large individual risks, but this is not a sign of unduly speculative business, as most of them have an agent at Lloyds' who re-insures as much of each risk as they consider prudent. Where this re-insurance is effected, the company are still liable to

the assured in the original amount, Lloyds' underwriters being liable to the company in the sum re-insured. As with fire and life insurance companies, the liability of the shareholders is generally limited, but the shares are not fully paid, and there is, therefore, a considerable uncalled liability, which makes the position of the assured one of safety.

## CHAPTER IV.

### THE POLICY.

A MARINE policy must specify—(a)

- (1) The name of the assured, or of some person who effects the insurance on his behalf;
- (2) The subject-matter insured and the risk insured against;
- (3) The voyage, or period of time, or both, as the case may be, covered by the insurance;
- (4) The sum or sums insured;
- (5) The name or names of the insurers;
- (6) The consideration (*i.e.* the premium arranged or to be arranged).

Policies are of two principal kinds, viz.: Voyage policies and time policies. A policy insuring a thing from one place to another is called a "voyage policy," and one insuring a thing for a period of time is called a "time policy." If both are included in one policy it is termed a "mixed policy."

Time policies apply to ships, voyage policies to ship, or cargo, or freight.

A class of policy which finds much favour among shippers of goods to a given port or ports at very frequent intervals is a "floating policy." By means of this form of

(a) Marine Insurance Act, 1906 (6 Edw. 7 Ch. 41, s. 23).

policy regular shippers are saved the trouble of effecting separate insurances with each shipment of goods, and the mere endorsement of each upon the policy is sufficient for all purposes. The total sum to be insured is inserted in the policy, together with rates of premium; and the declaration of the amount of each shipment is made when it is effected. A full example of this will be given in a separate chapter.

The form of policy which is known as a Lloyds' policy, and which has been in use for a great length of time, is adopted in the first schedule to the Marine Insurance Act, 1906, and is as follows, viz.:—

BE IT KNOWN THAT.....as well in  
 .....own name as for and in the name and names of all  
 S. G. and every other person or persons to whom the same doth,  
 may, or shall appertain, in part or in all doth make assurance  
 £ and cause.....and them, and every of them, to be insured  
 lost or not lost, at and from..... Upon  
 any kind of goods and merchandises, and also upon the  
 body, tackle, apparel, ordnance, munition, artillery, boat, and  
 other furniture, of and in the good ship or vessel called the  
 .....whereof is master under God, for this present  
 voyage,.....or whosoever else shall go for master in  
 the said ship, or by whatsoever other name or names the  
 said ship, or the master thereof, is or shall be named or  
 called; beginning the adventure upon the said goods and  
 merchandises from the loading thereof aboard the said ship,  
 .....upon the said ship, etc.....  
 and so shall continue and endure, during her abode there,  
 upon the said ship, etc. And further, until the said ship,  
 with all her ordnance, tackle, apparel, etc., and goods and  
 merchandises whatsoever shall be arrived at.....  
 upon the said ship, etc., until she hath moored at anchor  
 twenty-four hours in good safety; and upon the goods and  
 merchandises, until the same be there discharged and safely



landed. And it shall be lawful for the said ship, etc., in this voyage, to proceed and sail to and touch and stay at any ports or places whatsoever. . . . . without prejudice to this insurance. The said ship, etc., goods and merchandises, etc., for so much as concerns the assured by agreement between the assured and assurers in this policy, are and shall be valued at. . . . .

Touching the adventures and perils which we the assurers are contented to bear and do take upon us in this voyage : they are of the seas, men-of-war, fire, enemies, pirates, rovers, thieves, jettisons, letters of mart and countermart, surprisals, takings at sea, arrests, restraints, and detainerments of all kings, princes, and people, of what nation, condition, or quality soever, barratry of the masters and mariners, and of all other perils, losses, and misfortunes, that have or shall come to the hurt, detriment, or damage of the said goods and merchandises, and ship, etc., or any part thereof.

And in case of any loss or misfortune it shall be lawful to the assured, their factors, servants and assigns, to sue, labour, and travel for, in and about the defence, safeguard, and recovery of the said goods and merchandises, and ship, etc., or any part thereof, without prejudice to this insurance ; to the charges whereof we, the assurers, will contribute each one according to the rate and quantity of his sum herein assured. And it is especially declared and agreed that no acts of the insurer or insured in recovering, saying, or preserving the property insured shall be considered as a waiver, or acceptance, of abandonment. And it is hereby agreed by us, the insurers, that this writing or policy of assurance shall be of as much force and effect as the surest writing or policy of assurance heretofore made in Lombard Street, or in the Royal Exchange, or elsewhere in London. And so we, the assurers, are contented, and do hereby promise and bind ourselves, each one for his own part, our heirs, executors, and goods to the assured, their executors, administrators, and assigns, for the true performance of the premises,

confessing ourselves paid the consideration due unto us for this assurance by the assured, at and after the rate of . . . . .

In witness whereof we, the assurers, have subscribed our names and sums assured in London.

N.B. Corn, fish, salt, fruit, and seed, are warranted free from average, unless general, or the ship be stranded; sugar, tobacco, hemp, flax, hides, and skins, are warranted free from average, under five pounds per cent., and all other goods, also the ship and freight, are warranted free from average, under three pounds per cent. unless general, or the ship be stranded.

It has often been suggested that a more concise form of wording should be adopted, but, since the form here employed is a venerable one, and a vast number of judgments have been delivered in our High Courts in respect of its clauses, it is perhaps better left alone; at any rate, the Act of 1906 has adopted it.

The new Act has, however, laid down a few rules for the construction of the policy, and these will be embodied in our short explanation of the various clauses.

"BE it known that. . . . ." The space left blank is for the insertion of the name of the assured or his agent, and the reference to "persons to whom the same doth, may, or shall appertain, in portion or in all," shows that the interest in the subject-matter and in the policy may be transferred or assigned, wholly or in part, to another person. It does not follow that, because the assured has sold or assigned any part of his interest in the thing insured, he has thereby transferred to the assignee his rights under the policy; there must be an agreement to that effect with the assignee. The assured can no longer have any rights under the policy because he has parted with an insurable interest in the property, but the transference of those rights to the purchaser requires an agreement.

EXAMPLE. A. sells to B. a cargo of cotton which is on a ship sailing from New Orleans to Liverpool. A. had insured the cotton, but no mention of the fact is made to B. The ship is subsequently lost. A. has no claim upon the underwriters, because he has no longer an insurable interest in the cotton; and B. has no claim, because there has been no transference of rights under the policy to him.

As stated above, a marine policy may be assigned, either before or after loss, unless it contains terms expressly prohibiting assignment. It may be assigned by endorsement, or in any other customary manner, and the assignee may sue upon the policy in his own name. (b)

"To be insured lost or not lost." The rules of the new Act (1906) state: "Where the loss has occurred before the contract is concluded, the risk attaches unless, at such time the assured was aware of the loss and the insurer was not." It may be added, however, that if the insured knew that the ship or goods were exposed to some great risk, of which he did not inform the underwriter, and of which the latter was ignorant, there would be no valid claim, as the essential condition of the utmost good faith (*uberrima fide*) was non-existent. Subject to this condition, the insurance holds good, even though the thing insured be already lost.

"At and from." Upon this the rules say, "Where the subject-matter is insured 'from' a particular place, the risk does not attach until the ship starts on the voyage insured." And "Where a ship is insured 'at and from' a particular place, and she is at that place in good safety when the contract is concluded, the risk attaches immediately." And, further, "if she be not at that place when the contract is concluded the risk attaches as soon as she arrives there in good safety, and, unless the policy otherwise provides, it is immaterial that she is covered by another policy for a

(b) Marine Insurance Act, 1906, *ante*.

specified time after arrival." The question of a possible over-lapping of policies will be discussed later on; but it may here be remarked that the ship must proceed to load and leave the said port with reasonable dispatch. .

"Good ship or vessel called the . . ." A "ship" is really a sailing vessel having three masts with square rigging to each, but the term is commonly<sup>1</sup> applied to all classes of sailing vessels, and even to steamers. The name of the vessel is inserted in the blank space provided, if the policy refer to one ship or voyage; but where it is a "floating" policy, it is usual to insert the words "ship and / or ships," or "steamer and / or steamers," the names of the vessels being declared by endorsement as necessary.

"Whereof is master under God, for this present voyage, . . ." The name of the master, or captain, is rarely given in modern policies.

"Beginning the adventure upon the said goods and merchandises from the loading thereof aboard the said ship." We have seen that the risk on a ship commences either from the moment she starts on her voyage, or at the time she enters the port of departure. Now we see that the risk on cargo commences as soon as it is placed on board the vessel, so that the underwriter is not liable for loss or damage during transit from shore to ship at the port of departure, unless there is an express stipulation to that effect.

"Until she hath moored at anchor twenty-four hours in good safety." This determines, (c) or terminates, the risk on the ship. She is insured on an ordinary voyage policy, until she has arrived at her port of destination and been moored twenty-four hours in good safety.

(c) <sup>6</sup> "To determine" used of a contract of any kind is equivalent to <sup>7</sup> "to terminate."

"Upon the goods and merchandises until the same be there discharged and safely landed." The risk on cargo continues, therefore, until they are safely landed, but this implies that they are landed in the manner customary at the port of discharge and with reasonable dispatch. Where it is customary to discharge cargo into lighters or barges, in which they are conveyed to the shore, this risk is included under the policy; but if, at a port where it is customary for the ship to proceed alongside the quay or other usual landing-place, the captain discharges the goods into lighters instead, the risk does not extend to the lighters.

"To proceed and sail to and touch and stay at any ports or places whatsoever." This must be read strictly in conjunction with the previous words, "in this voyage." She has not liberty to call at any other than the customary ports, and must even take them in the order named (if named), or the customary order if not named, and she must only call at such ports for the purposes of her present voyage.

"Are and shall be valued at." Where the value of the ship, or goods, or freight has been agreed upon, it should be here inserted on the policy, which is then known as a "valued" policy. Where the value is not known or agreed upon, this space is left blank, and the value determined upon a basis which will be given in another chapter at page 133. Such a policy is called an "Unvalued" policy.

"Touching the adventures and perils which we the assurers are contented to bear and do take upon us in this voyage; they are of the seas. . . ." Perils of the seas are thus insured against, but the wear and tear incidental to every voyage is not a peril. The term "perils of the seas" refers only to fortuitous accidents or casualties of the seas, and does not include the ordinary action of the

wind and waves. "Men of war and enemies, takings at sea, restraints and detainments," are included in the risks here; but it is usual for the underwriters to insert a clause, "Warranted nevertheless free of capture, seizure, and detention, and the consequences thereof, or of any attempt thereat, piracy excepted, and also from all consequences of hostilities or warlike operations, whether before or after declaration of war." This clause nullifies that stated at the head of this paragraph, and is commonly met with. It is known as the "free of capture and seizure," or F., C., & S. clause.

"Pirates and rovers." This includes not only pirates who roam the seas and take forcible possession of goods or ship, but also rioters who attack a ship from the shore, and passengers who mutiny.

"Thieves" refers to the forcible taking possession, and does not cover clandestine theft or pilferage by members of the crew or passengers.

"Barratry" includes every wrongful act wilfully committed by the master or crew to the prejudice of the owner (or the charterer). It has a very wide application. The running a ship ashore for the purpose of wrecking her, scuttling her, or other mutinous act by master or crew, come under this heading of barratry. It further includes deviation from the proper course of a voyage for the profit or convenience of the master, without the knowledge or consent of the owner.

"Letters of mart and countermart," sometimes spelt *marque* and *countermarque*, are not so common now as formerly. They were letters given to the owner of a private ship by the sovereign of his country, authorizing him to prey upon the commerce of another country—it being supposed that he had suffered some loss at the hands of a master of a foreign vessel, and this letter of *marque*

permitted him to recoup himself by retaliating upon any other vessel belonging to the same nation.

"All other perils, losses, and misfortunes." If this meant what it says, there would have been no need to specify the other perils already referred to. It has not, however, so wide a meaning. It may best be rendered as "all other perils, etc., *of a like kind*," or of the same class, (*ejusdem generis*), and this interpretation has been adopted by our judges.

### *Sue and Labour Clause.*

The next clause is called the sue and labour clause. Its object is to minimize a loss. It makes it lawful for the assured, or their agents, factors, or assigns, to sue, labour, and travel for the safety or recovery of their goods, and agrees that expenses so reasonably incurred shall be refunded by the underwriters. The saving or recovery must be done by the assured or his agents, and the property saved must be his own and not another's property. The saving of another's property is "salvage," and the expenses incurred are not recoverable under this sue and labour clause.

### *Waiver Clause.*

This is an important clause, and a proper supplement to the sue and labour clause. The assured may, after giving notice of abandonment to the underwriters and claiming a total loss, use his utmost endeavour to safeguard or recover the property, without thereby "waiving" his notice of abandonment; and similarly the underwriter may so endeavour to save the property without such an act being considered as an acceptance of abandonment.

“Confessing ourselves paid the consideration due unto us for this assurance by the assured at and after the rate of.....”

The consideration, or premium, is not stated in amount but at a rate per cent., and when the underwriter has signed and delivered this policy, he may not thereafter deny that he has received payment of the premium. The customary pay-day at Lloyds' is the 8th day of the month following the completion of the contract, and it is usual to issue the policy to the broker before payment. In the event of the default of the broker the insurance stands, although the underwriters may not have received the money consideration.

*The Memorandum.*

This forms the subject of the succeeding chapter. The signatures of the underwriters, with the sum they assure are placed at the foot of the policy. Where the insurance is effected with the Marine Insurance Company, the secretary, or other authorized officer of the company, signs the policy, the wording of the latter part differing from a Lloyds' policy to admit of this alteration. The policy we have been discussing is an ordinary Lloyds' policy, upon which is printed the whole of the writing here set forth. It is not uncommon to attach printed slips to a policy containing special clauses, in which case the policy is to be construed particularly as to the meaning imparted into it by the slip; and if the wording of the slip be at variance with that of the policy, it is to the slip, and not to the policy, that we must look for an interpretation of the intent of the contracting parties. Very frequently, too, words are written in the body, or on the margin, of the policy, extending or curtailing its scope; and these words may be quite opposite in meaning to



certain printed portions which have not even been struck out, but the written words will govern the policy. A printed slip attached to a policy overrides, in its terms, any conflicting terms printed upon the policy ; and terms written upon the policy override others of all kinds with which they come into conflict.

## CHAPTER V.

### THE MEMORANDUM.

THE footnote to the policy commencing "N.B." is termed the Memorandum, and is an addition to the earlier form of policy. It enumerates, first, six classes of goods which are very liable to damage or deterioration apart from any risk of marine adventure. (*a*) Corn, fish, salt, fruit, flour, and seed are indeed so liable to deteriorate that underwriters are unwilling to take such risks upon themselves. They are content to bear a total loss if in the nature of a sacrifice for the general benefit (general average), or if, during the time the goods were on board the ship, she has stranded, and without proof that the damage or deterioration resulted from such stranding. What they are not contented to bear is the partial damage suffered during a voyage not attended with any mishap—a damage having probably no connection with the voyage at all.

Then follow six other articles, less liable to damage than the former six, but still being of a nature susceptible of deterioration without being caused by any risks to which they are exposed by the adventure. Unless occasioned by general average, or the ship be stranded (sunk or burnt

(*a*) Corn does not include rice, and skins do not include furs, and hemp does not include flax.

is now often added), the underwriters will not pay any claim amounting to less than 5 per cent. of the total value of such goods.

Lastly, all other goods, also the ship and freight, are warranted free from partial damage under 3 per cent., unless general average, or the ship be stranded, etc.

In effect, the underwriters say, "If your goods, or ship, etc., suffer deterioration *by reason of the perils to which they are exposed in a sea voyage*, the extent of that deterioration will not be less than 3 per cent., or, in the case of sugar, tobacco, hemp, flax, hides, and skins, 5 per cent.; and, providing that the damage reaches that percentage (or the franchise, as it is called), we will pay a claim. If, on the other hand, the loss do not attain this franchise, we are entitled to consider that the cause is not to be found in the perils against which we insure, but in the nature of the goods themselves, their inherent properties or vices, the faulty method employed in packing, or other cause outside the purpose of this insurance; in which case we will not admit any claim." It is a perfectly reasonable argument, and some such system must be employed if low rates of premium are to obtain. In the whole range of marine insurance business, nothing is more annoying to the underwriters than the number of petty claims—claims made for deterioration which cannot be reasonably connected with the voyage. Underwriters will cheerfully pay a large claim clearly arising from a peril named in the policy, but the small claims for damage probably outside the scope of the policy are not only an annoyance to them, but make a large hole in their profit.

When the "memorandum" was first inserted in policies, ships were of comparatively small tonnage, and the cargo owned by one merchant and shipped by one vessel was not of great value. With the increase in the size of ships

and value of individual shipments, this question of franchise was reconsidered in the direction of affording greater security to the assured. With small ships and small shipments, a 3 per cent. loss was somewhat trivial; but with modern vessels of enormous value, and with shipments by one merchant reaching to £10,000 or more, a loss of 3 per cent. assumed a different aspect.

In respect of ships, the values of hull, machinery, fittings, etc., may be regarded as separate items of insurance, so that if the damage to cabin fittings is as much as 3 per cent. of the total value of those fittings (not of the total value of the ship), the loss attains the franchise, and will be paid by the underwriters. With the largest liners this subdivision of interests may be carried much further.

In respect of goods, an attempt was made to subdivide a single merchant's cargo in such manner as to ensure that a claim for a reasonable sum should not be disallowed by the 3 per cent. or 5 per cent. franchise clause. To effect this purpose the subdivision had to be greater for the more valuable classes of cargo. A subdivision was called a "series," and the basis of the formation of series seems to have been a value of about £100. One package of silk or other valuable commodity formed a "series," or separate risk; 10 bales of cotton, or 10 chests of tea, or 50 bags of sugar formed a "series," and so on. Under this arrangement a merchant might ship 20, or more or less, packages of silk, and if one of such packages suffered damage, the basis upon which the franchise was computed was not to be the value of the whole shipment, but of the single package damaged. The value of the 20 packages might be £2000 (20 packages of £100 each), but if the damage was only £3, it would constitute a valid claim, because it would be 3 per cent. of the value of the one package or series.

Where a single package forms a series, no difficulty presents itself, but where 20 packages form one series, and the shipment is one of 200 such packages, and, say, 3 packages are damaged, the question arises, "Are these 3 damaged packages to be considered as forming part of one series, or is each one of the 3 packages to be held to be included in a separate series?" The damage may be more than 3 per cent. or 5 per cent., as the case may be, on one series, but if spread over three series it will not reach the franchise. To obviate any difficulty in this respect, the series are generally to be considered in "running landing numbers." Every 20 packages successively landed forms a series, and the damaged packages are included in the series in which they were landed; and as it is not unusual to land the damaged packages after all the sound ones, the merchant is very fully protected. ~~It~~ It is obvious that the total number of packages is not always divisible by the series without remainder, and the last series cannot contain its proper complement; it, however, serves the same purpose, and is termed the "tail series."

Not infrequently merchants secure the insertion, under the memorandum of their policies, of the words, "Average on each package separately or on the whole." While the advantage of being able to reckon damage on each package separately is very evident, it is not so clear that its computation upon the whole shipment may be of advantage. Let us take a shipment of 5 cases of goods, each of the value of £100 = £500 total, and suppose that one case suffered damage to the extent of £10, another of £8, another of £5, another of £2, and the remaining one of £1. If taken separately, claims for the first three will be admitted, but claims for the last two will be less than 3 per cent., and not, therefore, admitted. Taken "on the

whole," the claim will be for £26 on a total value of £500, and so attains the franchise.

After the last word of the memorandum, "stranded," the words "sunk or burnt," and sometimes also "or in collision," are added. The happening of any one of these events destroys the protection afforded by the memorandum to the underwriter, making him liable for smaller claims; but in this connection a mere "grounding" in the Suez Canal is not held to be a stranding. To establish a claim under the franchise in amount, upon the evidence of a grounding in the Suez Canal, proof is needed that the damage was due to the grounding.

Stranding does not mean that the ship touches the strand or a sandbank in passing over it; the obstacle to her progress must be so great as not merely to retard it, but actually to bring the vessel to a stop for a conceivable space of time.

## CHAPTER VI.

### FLOATING POLICIES.

As this chapter is addressed to the student or the shipping clerk, and deals with a somewhat complicated form of policy in very general use, an example is taken and illustrated throughout.

A firm of merchants in London required to insure their frequent shipment of goods to Sydney and Melbourne, and to obviate the necessity of a fresh contract and policy with each shipment, have arranged for a policy covering the whole of the shipments over a period of twelve months. A reduced facsimile of the policy is here shown.

"London to Sydney and Melbourne" signifies the ports of departure and destination, but the risk is expressly stated to include "risk from warehouse in the United Kingdom, and until delivered into consignees' warehouses." Ordinarily, the duration of risk on cargo is from the time of loading it on-board the ship until it has been safely landed, and although this is extended in the present policy, the old words need not be struck out, as explained in Chapter IV.

The merchants, Messrs. Card & Co., do not know by which ships they will need to send goods, and cannot state them on this policy, but they have agreed that only steamships and not sailing ships will be endorsed on this policy.

and the words steamer and/or steamers is sufficient. And/or is of common use, and may be read either as "and" or as "or," preventing the possibility of a quibble as to the exact meaning of either one or the other.

"Warranted to sail on or before December 31, 1907." This is a warranty by the assured that no interest shall attach to this policy in respect of any goods shipped by a steamer which does not sail before January 1st, 1908. Time policies may not be for a period of more than twelve months; but this is not a time policy, being merely a succession of voyages, and the limit of duration is not inserted to comply with the law, but for the convenience of underwriters.

The value of each shipment cannot be given, hence the words £80,000 on goods and/or merchandises in zinc, tin, or f.p.a., or as may be hereafter declared and valued.

Zinc and tin refer to the method adopted in packing goods, and it is well known that where packing-cases have a lining of tin or zinc sheets soldered together, and thus made waterproof, the risk of damage by sea-water is reduced to a minimum, and the rates of premium are correspondingly low.

F.P.A. (free of particular average) is a warranty that the assured will not hold the underwriters liable for a partial accidental loss or damage. It is not always practicable to pack goods in zinc or tin-lined cases. Carpets and many classes of cotton and other goods are usually packed in bales, and, consequently, more liable to suffer damage from sea-water. They may be insured against all risks, but the premium will be higher. In the fixing of a minimum rate, all classes of goods packed in zinc or tin are herein to be covered against all risks, but other goods, packed differently, are not covered against



the risk of partial accidental loss or damage—in other words, they are free of particular average (f.p.a.).

“Hereinafter declared and valued.” As soon as a shipment has been completed, notice thereof will be sent to the broker, who generally has possession of the policy, and he will endorse upon it the particulars and value of each shipment, as will be seen from a reference to the endorsements under the heading of “Declarations.”

Messrs. Card & Co. decided to insure all goods for 20 per cent. over and above the invoiced cost, covering all possible expenses of carriage, freight, shipping expenses, insurance, and some loss of profit. When the value has been declared, the amount to be claimed, in the event of loss, is easily seen, but there may be a loss before declaration, and for this provision is made in the words beginning with “in the event of loss before declaration.” Goods sent to the docks for shipment by a given vessel some days before her date of sailing may be “shut out,” by reason of her being already full; and, on the other hand, they may be sent down on the last day and be shipped. Until it can be ascertained that they are really placed on board, it would be folly to send particulars of the shipment to the brokers, and as the ship has frequently sailed before the information can be definitely given, goods are often at risk on the boat, and may even suffer loss or damage before they can be declared upon the policy.

“Warranted nevertheless free of capture,” etc. These words are printed in italics, and override the previous statement of perils insured against. The shippers hereby acknowledge that the underwriters have no liability in respect of capture or seizure of their goods. To cover such a risk for so long a period as a year would entail an increase of premium throughout, and Messrs. Card & Co.

will not pay the higher rate, preferring to await the possibility of war, and then insuring specially against it.

The rate of premium is fixed at six shillings and eight-pence per hundred pounds, for goods packed in zinc or tin against all risks, or for goods otherwise packed f.p.a., provided such goods are shipped by P & Q or Orient steamers.

"Including risk of pilferage." This is not one of the risks or perils insured against in the body of the policy, and has been inserted to make the security given to the shipper more complete.

"In case of damage it is recommended that notice be given to the nearest Lloyds' agent." This does not constitute an order, but is merely a request, and it should be acted upon. The utmost good faith must be observed in all matters relating to marine insurance, and the assured should act as though the word "utmost" were printed in large capital letters.

The consideration, or rate of premium, on goods packed otherwise than as already mentioned, or forwarded by steamers belonging to other companies, are then stated.

On the second page of the policy (because there is no room at the foot of the first page) the signatures of the underwriters are given, or their names and the signature of the person authorized to act for them. For the greater convenience of underwriters, they frequently form themselves into groups, circles, or syndicates, deputing to one person authority to sign on behalf of each member thereof; and there has been a tendency at Lloyds' in the direction of multiplying not only the number of syndicates, but also the number of underwriters forming a syndicate. This arrangement, however, must be regarded solely as effecting a more economical method of conducting business; and the liability of each underwriter is strictly limited to the

amount he subscribes, whether his name appears alone or in conjunction with others. The imprinting of the names on the policy is generally performed by means of a rubber stamp, and the signature appended is usually that of one of the underwriters, but any other duly authorized person may sign the policy on behalf of either a single underwriter or a syndicate.

The total amount subscribed is £80,000, and the first name is responsible for £1000, or one-eightieth part of this sum. In the event of an admitted claim of £1600, he would pay one-eightieth, viz. £20, this being the full extent of his liability in respect of a claim for that amount; and as the largest individual shipment is under £3200, a total loss cannot affect him to a greater extent than £40.

The third page of the policy contains the "Declarations," or the shipments and values declared, as attached thereto. The first column contains the date of sailing, the second the name of the ship, the third the number and description of packages and the risks to be covered, the fourth the sum assured, and the fifth the rate of premium. The shipper should, at frequent intervals, check this list of declarations with his books, to protect himself against the possibility of the broker having omitted any shipment; not that the underwriters or company make it a practice of refusing to entertain a claim arising out of loss on a shipment not declared in due time, but as a proof of his legal right to claim for such loss.

Companies and underwriters often admit a claim where a declaration has been unwittingly omitted, and the fact of the omission only discovered after a loss. This, however, must not be interpreted as an acknowledgment of their legal liability, but as a proof of that "utmost good faith" which lies at the root of all marine insurance. The law requires the utmost good faith, and where the assured

can show that he has acted throughout in the spirit of this law, the insurers will stretch its meaning beyond the limit set by any law, and pay a claim which by an oversight the assured cannot legally demand. Immediately any omission of, or mistake in, a declaration becomes known to the assured, he should notify his broker, that it may be corrected; and even if a ship have duly arrived at its destination when it is discovered that the cargo was not declared upon the policy, it must be declared, as otherwise the premium would not be paid. The broker will secure the initials of some of the underwriters to every alteration in the "declarations."

Various alterations have been made in the declarations on the sample policy illustrated, and these have been initialed by the underwriters.

#### *Termination.*

Messrs. Card & Co. estimated that the total value of their shipments to Melbourne and Sydney, during the year 1907, would be about £80,000, and therefore caused the policy to be issued for that amount. After December 31st no further shipments can attach to the policy, and it may be that their total value has fallen *short* of the sum assured. Messrs. Card & Co. will in that case receive back from the underwriters the difference between the premiums on the actual shipments and the amount paid by them when the policy was issued; and this return is called a return for "Short interest."

The policy may, however, terminate before December 31st if the declarations reach £80,000. In the example shown, this has been the case, and on November 10th it is found that the value of the shipment of that date cannot be wholly declared upon the policy. Such portion of the value as will bring the total to £80,000 is made to attach

thereto, and the balance will form the first declaration on a new policy.

The fourth page of the policy is (1) a general endorsement in the form of a short précis, and showing the amount payable by the assured for premium and stamp duty; and (2) the settlement on account of additional premiums.

(1) The sum of £270 13s. 4d. was paid by Messrs. Card and Co. to the broker before the 8th February, and it was the duty of the broker to recoup himself for the stamp duty he had paid, and to distribute the amount of premium (less his brokerage or commission) among the underwriters in proportion to the amounts they have subscribed.

(2) The premium paid by Messrs. Card & Co. was upon £80,000 at the rate of 6s. 8d. per cent., but some portions of the shipments have been of a nature demanding an extra rate, as agreed, and the statement of settlements sets forth the further amount due from the assured. This sum must now be paid, and the broker will distribute it in the same manner as the original premium, the underwriters assenting to the settlement by initialing the statement.

## CHAPTER VII.

### WARRANTIES AND REPRESENTATIONS.

A WARRANTY is an undertaking by the *assured* that some condition shall be fulfilled, or that a certain thing shall be or shall not be done, or "whereby he affirms or negatives the existence of a particular state of facts." (a)

Warranties may be express or implied; that is, they may be expressed in the terms of the policy, or, by usage or custom of trade, implied, needing no expression.

*The implied warranties* are (1) seaworthiness, (2) non-deviation, (3) legality.

*Seaworthiness.*—In a voyage policy there is an implied warranty that, at the commencement of the voyage, the ship shall be seaworthy for the purpose of the particular adventure insured; and where the voyage is to be performed in different stages, she shall be seaworthy at the commencement of each stage. She must be reasonably fit in all respects to encounter the ordinary perils of the contemplated voyage. If a steamer, she must not leave port without a reasonable supply of coal to last her until the next coaling port. She must be fully manned and properly equipped for the voyage. She may, of course, become unseaworthy *during* the voyage, but may not be

(a) 6 E. & L. 7. ch. 41, sect. 33.

sent to sea in an unseaworthy state. The one exception to this rule is in the case of "time" policies on ships, to which the implied warranty of seaworthiness does not apply. •

There is, here, no hardship to the shipowner, but the extension of this warranty to cargo-owners (to whom it applies equally with the shipowner) constitutes a very great hardship. The shipowner may be presumed to know the condition of his ship and should be held responsible for her proper equipment, but the cargo-owner has neither knowledge nor responsibility in this respect, and it is unreasonable that he should be deprived of the benefit of insurance. Naturally, he desires a fuller protection, and, as naturally, the underwriters agree to afford it, by attaching a slip to the policy expressly admitting the seaworthiness of the vessel or vessels. But without such a slip attached, the shipper is not insured by the ordinary policy, in the event of the ship, in which he has goods, proceeding to sea in an unseaworthy state. (b)

*Deviation.*—Where a ship, without lawful excuse, deviates from the voyage contemplated by the policy, the insurer is discharged from all liability as from the time of the deviation, and it is immaterial that the ship may have regained the route before any loss occurs. The ship must follow the course designated by the policy, or, if not specifically designated by the policy, the usual and customary course. If the ports of call are named, she must take them in the order named, or, if not named, in the order customary to the voyage, and the taking them in any other order is a deviation; but she need not call at any or all of them. If permission be given in the policy to call at ports of discharge within a specified area,

<sup>\*</sup>(b). Seaworthiness refers to the state of the ship, and not to the state of the cargo.

the ship must, in the absence of any usage, proceed to them or any of them in their geographical order. Furthermore, the voyage must be prosecuted with reasonable dispatch.

EXAMPLE.—A ship sails from London to Bombay, *via* the Suez Canal, with permission to call at the ports customary on her voyage. Leaving Marseilles, she crosses to Tunis to embark goods for Aden. Tunis not being one of her customary ports of call, there was a deviation after leaving Marseilles, and the policy became void. After her arrival at Aden, she is lost in the Arabian sea, having long since re-entered upon her proper course, but there can be no valid claim on the underwriters, as the policy had been avoided in crossing to Tunis. And, notwithstanding the liberty to call at any specified ports, her touching them must be for the purpose of the particular voyage, and not for the purpose of securing information in respect of other contemplated voyages.

*Change of Voyage.*—Where the destination is specified in the policy, and the ship, after the commencement of the risk, sails for another destination, no risk attaches to the policy from the time when the determination to change the voyage became manifest.

*Different Voyage.*—Where, before the commencement of the voyage, the destination is altered, no risk attaches to the policy at any time.

A loss occurring when once the ship has left her proper course, even though she may have regained that course, is not covered by the policy; but the policy ceases to be effective only from the time of actual deviation.

Where the determination to alter the destination is made before the commencement of the voyage, the policy was never in force, the voyage being a different one; where the determination was made after the voyage had been started, thus constituting a change of voyage, the risk ceased when the change became manifested.

*Justifiable Deviation.*—Circumstances may arise which



render delay\* or deviation justifiable, and these are tabulated by the Marine Insurance Act, 1906, as follows:—

- (a) Where authorized by any special terms in the policy ;
- (b) Where caused by circumstances beyond the control of the master and his employer ;
- (c) Where reasonably necessary in order to comply with an express or implied warranty ;
- (d) Where reasonably necessary for the safety of the ship or subject-matter insured ;
- (e) For the purpose of saving human life, or aiding a ship in distress where human life may be in danger ;
- (f) Where reasonably necessary for the purpose of obtaining medical or surgical aid for any person on board the ship ; or,
- (g) Where caused by the barratrous conduct of the master or crew, if barratry be one of the perils insured against.

When the causes which excuse deviation or delay cease to be operative, the ship must resume her course with reasonable dispatch.

The implied warranty of deviation applies alike to ship and cargo, and this, again, may seem to press hardly upon the shipper, who has no sort of control over the captain or shipowner. Underwriters are, however, prepared to afford protection to the cargo-owner, but require an extra premium if the deviation exposes the goods to a greater risk than contemplated in the policy. It is a common practice to affix a slip to the policy, whereupon it is declared that "in the event of deviation and/or change of voyage, the assured to be held covered at a premium to be arranged, provided notice of such deviation be given as soon as it is known." Without such a slip, a policy on

goods becomes void when the ship deviates from her course or changes her voyage.

*Legality.*—In common with all other contracts, a policy of marine insurance is void if the adventure is not a lawful one, or, so far as the assured can control the matter, is not carried out in a lawful manner.

A policy of insurance effected for the purpose of insuring an alien enemy is void, because illegal. An alien may enter into a contract with British underwriters whilst his country is at peace with Great Britain, but upon the outbreak of hostilities, and during their continuance, it would be unlawful to pay any loss. Carrying contraband of war in a British ship is not illegal trading, if Great Britain be neutral.

*Express warranties* are those which find expression in a policy, and may be of any nature whatsoever.

"Warranted to sail on or before" a given date, or "Warranted free of particular average," or "Warranted free of capture and seizure," or the warranty as stated in the memorandum at the foot of the policy; these are warranties frequently met with in marine insurance. Every warranty must be strictly and literally fulfilled, or the contract may be avoided.

### *Representations, Etc.*

"A contract of marine insurance is a contract based upon the utmost faith, and, if the utmost good faith be not observed by either party, the contract may be avoided by the other party." (c)

The assured must disclose to the insurer, before the contract is concluded, every material circumstance which is known to him, and which would influence the judgment

of a prudent underwriter in fixing the rate of premium, or determining whether he will take the risk. What circumstances are material is a question of fact; but the law requires that there shall be no concealment of anything, the disclosure of which is necessary to comply with the condition of the utmost good faith. An underwriter is, of course, presumed to know matters of common knowledge, and those which, in the ordinary course of his business, he ought to know; and the disclosure of such matters, or of any circumstances which diminishes a risk, is not necessary, though even the latter are better disclosed. And the assured is presumed to know every circumstance which, in the ordinary course of business, ought to be known by him; so that ignorance on points upon which the assured ought ordinarily to be informed is no excuse for non-disclosure to the insurer. Virtually, there is a mutual obligation to hide nothing material from the other party, which he should know for the purpose of the insurance.

Concealment of material facts, or misrepresentation by a broker or agent of the assured, leaves the underwriter with an option to avoid the policy.

Every representation made during the negotiation for a contract of insurance must be true; but a representation may be either as to a matter of fact, or as to a matter of belief or expectation. If as to a matter of fact, it must be substantially correct; and if as to a matter of belief or expectation, it must be made in good faith; otherwise the insurer may avoid the contract. The material nature of a representation, like that of disclosure or concealment, may be tested by its liability to influence the judgment of a prudent insurer in fixing the premium, or determining whether he will take the risk. It will be seen that there is this difference between a warranty and a representation,

that whereas a warranty must be *literally* fulfilled, a representation is true if *substantially* correct—if the difference between what is represented and what is actually correct would not be considered material by a prudent insurer. Where a representation has been made by the assured, and afterwards discovered by him to be incorrect, he may, before the conclusion of the contract, withdraw or correct it.

*Return of Premium.*—In all cases of material misrepresentation or concealment the injured party may avoid the contract; the contract is not necessarily void, but voidable at the option of the injured party. Where the misrepresentation by the assured, although material, was not wilful, the underwriters will, if they elect to avoid the policy, return the premium to the assured.

A gross misstatement of the value of the goods insured, or an exorbitant valuation put upon them is evidence of fraud and will avoid the policy.

## CHAPTER VIII.

### DURATION OF RISK—DOUBLE INSURANCE—COLLISIONS— —SALVAGE.

*Time Policies on Ships.*—These should state the period of time for which the ship is insured, in calendar months, and the time of day governing the commencement and termination Greenwich meantime. As diurnal time varies with the longitude, some fixed method of computing the period covered must be adopted.

Shipowners insuring their ships from January 1st, 1907, to January 1st, 1908, naturally desire that the expiration of the insurance shall be, either on January 1st, 1908, or as soon after that date as she arrives back in port; and they are willing to pay for any extension involved at a proportionate rate. If, on January 1st, 1908, a ship, whose insurance expires on that date, be at sea, or in distress, or no news have been received of her for some time, a fresh contract for the year 1908 may only be obtainable at a much greater rate of premium. Both insurers and assured are agreed that there should be a continuance of the risk at the same rate until the ship has completed the voyage. The "continuation clause" was designed to afford this protection, and reads, "Should the vessel at the expiration of this policy be at sea, or in distress, or at a port of refuge or of call, she shall, provided previous notice be given

to the underwriters, be held covered at a *pro rata* monthly premium to her port of destination." The continuation clause was to be arranged for when the policy was taken out, and not at its expiration. It was really an agreement to continue the risk under the circumstances referred to. But the Stamp Act, 1891 (54 and 55 Vict. ch. 39), sect. 93, enacts that "No policy of sea insurance made for time shall be made for any time exceeding twelve months," and the insertion of a continuation clause was an undertaking to violate that section. The object of the section in question was to secure a fresh stamp duty every year, and this end might be attained without such an undue interference with the business of marine insurance as was contained in its wording. The Finance Act, 1901 (1 Edw. 7. ch. 7), sect. 11, permits such an extension of time; providing that for such a continuation clause a stamp duty of sixpence (for any amount) be charged in addition to the ordinary stamp duty; that as soon as the risk is covered by that clause it shall be deemed a separate contract not covered by the stamp thereon, but requiring to be stamped again according to the Stamp Act within thirty days after the risk has attached; and permitting the insurance to continue until the completion of the voyage, and for a reasonable time thereafter, not exceeding thirty days. Finally, the Marine Insurance Act, 1906 (6 Edw. 7. ch. 41), sect. 25, sub-sect. 2, recites that, "Subject to the provisions of section eleven of the Finance Act, 1901, a time policy which is made for any time exceeding twelve months is invalid." This legalizes the design of insurers to afford protection for a period of twelve months, or until such time as a ship (being away at the expiry) shall reach her home port.

*Voyage Policies on Ship.*—In an ordinary Lloyds' policy risk commences, (1) if "from" a certain port, as soon as the

vessel starts upon her voyage, including her passage from her moorings through that port; (2) if "at and from" a certain port, as soon as she shall arrive in good safety at that port; or, if she be already there and in good safety, immediately the contract is concluded. The risk continues until she has arrived at her port of destination, and been moored at anchor twenty-four hours in good safety. This time may, by agreement, be extended to thirty days after arrival, thirty days being the limit allowed in this direction in a "voyage" policy. It has been observed that any words written in the policy will override other printed words with which they may be in conflict, but if "thirty days" be inserted "twenty-four hours" must be struck out; the terms are not in conflict, but consecutive, and imply a continuance for thirty days and twenty-four hours, or thirty-one days, which is outside the scope of a voyage policy.

The insurance of a ship for a voyage and thirty days after arrival may lead to a "double insurance," or an "overlapping" of two policies on the same interest.

EXAMPLE.—A ship is insured from London to Newcastle (N.S.W.) and for thirty days after her arrival there. Arrived at Newcastle, she discharges her cargo, and finding an opportunity of earning freight by conveying a cargo of coal to San Francisco, her captain cables to his London owner advising him of the contemplated voyage. The owner will, at once, insure the vessel "at and from" Newcastle (N.S.W.) to San Francisco, and for thirty days after arrival there. He insures "at and from" Newcastle because his ship may not leave that port until thirty days after she reached it, and his first policy will have expired. From the moment of the new contract of insurance being completed until the expiry of the old policy, there is a double insurance on the ship.

Whether double insurance be accidental, as in the example just given, or intentional with the object of securing a far greater sum than an "indemnity," the

assured cannot legally claim more than the indemnity allowed by the Marine Insurance Act. He may claim payment from which set of underwriters he elects, but not from both, and the whole of the underwriters will settle the matter among themselves. To obviate such "overlapping" the insurers generally insert, in policies covering risks such as described, "Interest not to attach to this policy until the expiry of previous policies."

*Voyage Policies on Goods (Cargo).*—In the absence of any express stipulation to the contrary, the risk commences at the moment the goods are placed on board the vessel, and continues until they are safely landed at the port of destination. A double insurance of goods may be effected by both sender and consignee unwittingly insuring the same cargo, and only one loss can be paid. If it be discovered before the risk expires, one of them may secure the return of his premium, but if the risk have been completed it will be divided between both sets of underwriters.

*Collisions.*—It will be observed that no mention is made of collisions or running-down in the ordinary Lloyds' policy, but protection is generally afforded on policies on ships by the insertion of some form of running-down clause (R.D.C.). Generally speaking, the underwriters will not make themselves liable for any but losses of property (not life), by reason of collision with another vessel; and, even then, will not fully cover the shipowner, but leave him to bear about one-quarter of the loss.

Collisions may be due to the fault of only one of the vessels colliding, or may be due partly to the fault of both, or may be the result of "*force majeure*," and neither ship may be to blame.

Where one only is at fault, or to blame, her owner must recompense the owner of the injured vessel for the loss.



or damage, subject to the limitations of the Merchant Shipping Act, (a) as referred to in the chapter on Affreightment.

Where both are to blame, the English practice is to add together the value of the damages sustained by the two vessels, each being required to pay one-half that sum, and then to pay out of the fund thus created, the value of the separate damage to each. But the practice of various countries differs considerably.

Where both vessels belong to the same owner, he cannot be said to be liable to himself, and, since he cannot subrogate to the underwriters his right of action against himself, he would be practically uninsured. This difficulty is overcome by the insertion in the policy of a "Sister-ship Clause," which extends protection to the owner of a ship sustaining damages from another of his ships.

Where neither vessel is at fault, each owner must bear his own loss, and has no claim upon the other.

It has been seen that, by the Sue and Labour Clause of the policy, the underwriters agree to reimburse the assured, his agent, factor, or assigns, for expenses incurred in protecting or saving *his own* goods; but no expenses are allowed under this clause to persons saving the property of others. This latter comes under the term "Salvage," and any salvor has a right to demand payment for his services.

(a) 57 & 58 Vict. Ch. 60.

## CHAPTER IX.

### TOTAL LOSSES.

TOTAL losses resulting from the jettison of goods, or other form of sacrifice, have been discussed in the chapter on General Average; and the present chapter will treat of total losses arising out of the various perils insured against. They fall into two classes: Actual and Constructive.

*Actual Total Losses* occur where the subject-matter, ship, cargo, or freight, passes out of existence; and may be capable of proof, or be presumed. The shipping intelligence, in our daily papers, records many cases of actual total loss which have been witnessed by men afloat and ashore, as in the case of the Great Eastern Railway Company's steamer *Berlin*, wrecked in 1907 at the Hook of Holland. Abundant proof is afforded of the actual ending of many vessels, but in some instances of total loss there can be no proof, every witness of the calamity having become a victim to it. Misfortune to a ship is presumed when she has occupied a much longer period than customary on a certain voyage, and any person having an interest in such an adventure will find the rate of premium rising daily. Lloyds' committee will, in course of time, cause the name of the vessel to be posted as "Overdue," and, after a further period, if no news of her reach London, the committee

will post her as "Missing." The entry of her name upon the "Missing" list is presumptive evidence of her total loss; and is, for all purposes of insurance, as definite and conclusive as any actual evidence. It may happen that a series of misfortunes has prevented the ship from reaching a port, or communicating with other vessels, and has so long retarded her progress that her continued silence has caused what may be described as a premature entry of her name on the list. Upon the posting of the ship as "Missing," all claims are paid, and if, after their settlement, she arrives in port, or news of her safety reaches Lloyds', news of such good fortune is heralded by the striking of the "Lutine" bell in Lloyds' underwriting room. When the underwriters paid a total loss, the assured assigned to them all rights and interest in the subject-matter of the insurance, in accordance with what is known as the law of "subrogation;" all property in respect of which such claims have been paid becomes, therefore, the property of the underwriters. This doctrine of subrogation extends to "choses in action" as well as "choses in possession"; to rights of action in respect of property lost as well as rights of possession of property saved. A comparatively recent illustration of the application of this doctrine to "choses in action" was afforded by the case of the steamer *Albuera*. She was lost off the coast of South America, after coming into collision with the sailing vessel *White Star*, and the underwriters paid a total loss to the owners of the *Albuera*. Upon investigation, it was found that the blame for the collision rested entirely with the *White Star*, and the *Albuera's* underwriters took proceeding against the owners of the *White Star* to recover the loss they had sustained. The blame was admitted, but it was claimed that the liability of a shipowner was limited by statute (Merchant Shipping Act,

1894, 57 & 58 Vict. Ch. 60), to £8 per ton of his ships register tonnage, a sum very far short of the value of the *Albuera*. The result was that the owners or underwriters of the *White Star* paid to the underwriters of the *Albuera* a sum equal to £8 per ton of the *White Star's* tonnage. It will be seen that, by the doctrine of subrogation, the underwriters stand in the same legal relationship to the subject-matter as did the owners thereof.

*Constructive total loss* differs from actual total loss in that the subject-matter is still in existence, but in such a position, or under such circumstances, that the cost of reclaiming would be greater than its value when reclaimed. No sane man will expend upon the acquisition of any article, a sum greater than its value, and when goods or ship are so placed as to be irrecoverable excepting at a greater cost than their worth, the proper and common-sense construction to be placed upon the loss is a total loss—a constructive total loss.

If the whole of the expenses incurred in the recovery and repair of a ship exceeds her value as a ship when repaired, she is a constructive total loss; and the value of the ship upon which the calculation is based, is not her insured value, but her value after repairs have been effected. But, as soon as the repaired value has served the purpose of determining a total loss, then, and for the purpose of a claim upon the underwriters, her insured value is taken into account.

One more element has to be reckoned with. The ship may have cargo on board, the freight of which is to be paid at destination, and that destination may not be far distant from her position. Provided she can deliver the cargo, even though it be in a damaged condition, the freight will become payable.

We may, therefore, state the case thus:—If the cost of

repairs are greater than the repaired value of the vessel plus the freight earned, there is a constructive total loss.

EXAMPLE.—

Insured value of ship . . . . .	£10,000	=
Total cost of saving and repairing ship . . . .	£8,000	+
Freight earned in consequence . . . . .	£ 500	
Value of ship, as repaired . . . . .	7,000	
	<u>7,500</u>	

A total constructive loss is proved, and the expense involved was unwarranted, it having cost £8000 to save only £7500.

The claim, now being established, will be for the full insured value, namely £10,000.

Many policies have a special clause, providing that the "insured value shall be taken as the repaired value of the vessel in ascertaining whether there is a constructive total loss under the policy."

Reference has been made to the owner (insurer) giving "notice of abandonment" to the underwriters. This notice must be unconditional in its terms, and the word "abandon" should occur in it. The absence of any reply from the underwriters is evidence that they do *not* accept the abandonment. Notice of abandonment, and an action to recover the amount insured are two very different things; and, in determining whether or not there was a constructive total loss, the actual position on the day of commencing an action, and not of the date of notice of abandonment, will be taken into account. A ship may become so placed that it is impossible for man to restore her, but some extraordinary action of nature may effect what was impossible to man; and the vessel which was, to all intents and purposes, a total loss a month ago, may to-day have

become only a partial loss. If an action at law had commenced, by the issue of a writ, before this change of position, the assured could legally claim a total loss, but not otherwise.

*Constructive total loss on cargo.*

Goods are an actual total loss either when they cease to exist, or when they cease to exist "in specie," or "change their specie." A stained glass window may be so broken as to have no piece left whole, but every particle of glass is present. It has ceased to exist in, or has changed its specie; it was a stained glass window and is now fragments of broken glass: it is an *actual* total loss. Tobacco may become so damaged by sea water, that by no process can it be restored to such a condition as to be saleable as tobacco. It is an actual total loss, as it has ceased to exist as, or has changed its, specie.

Without any change of specie, however, goods may become a constructive total loss. They may be put ashore in safety, upon the stranding of a vessel, but be beyond recovery, because unattainable; or they may be damaged and placed ashore, in such condition and position, that the cost of re-conditioning them and forwarding them on to their destination, would be greater than their market value at that place; or they may arrive at their port of destination so damaged, as not to be beyond restoration to their proper specie, but the cost of restoration be greater than their restored value. These are all instances of constructive total loss of cargo.

*Total Loss of Freight.*

Where freight is paid in advance, the shipper generally adds the amount to the value of his goods, and the freight is not separately insured. Where it is to be paid at

destination, no portion of it can be demanded excepting upon production of the goods, and any loss of cargo entails also loss of the freight which would have been earned had that cargo been delivered. A loss of freight may also arise from the failure of a ship to reach a port in time to load certain cargo, but most freight policies have an exception clause under which the underwriters will not be liable to loss of freight by detention.

*Claims.*

Where the insurance has been effected at Lloyds', payment to the assured will be made through the broker, who usually charges his client with a commission of one per cent. for this service. Claims for total loss must be accompanied by the bills of lading, policy of insurance, captain's protest, and abandonment with subrogation or assignment of all interest to the underwriter.

## CHAPTER X.

### PARTICULAR AVERAGE LOSSES.

HAVING discussed losses, partial and total, arising out of a sacrifice (General Average), and total losses resulting from perils insured against, we have now to refer to that most numerous class of losses, particular average.

A particular average loss is a *partial* loss of the thing insured, caused by a peril insured against, and which is not a general average.

*Particular Average Loss of Ship.*—Where a ship has been damaged, but not totally lost, and has been subsequently repaired, the assured may claim the cost of repairs, less certain customary deductions for "new for old" material. It is held that new material has been supplied in the place of the old and partly worn-out material which had been destroyed, and that an allowance must be made therefor, otherwise the contract would not be one of indemnity. If the repair necessitates much labour and little material, this deduction of new for old should be small, and when the cost of repair is almost wholly a matter of labour, as in the case of anchors, no deduction should be made. The rule is to pay for repairs to anchors in full, and to deduct one-sixth from the total cost of repairs to chain cables, and one-third from the total cost of all other repairs. This rule, however, does not apply to a ship on its first voyage. Without altering this old rule, as a rule,



a clause is frequently inserted in policies on ships which overrides it; a deduction of so much as a third being considered excessive, and in some cases no deduction whatever being made. The proceeds of the sale of the old material at the port of repair will, naturally, be a deduction from the claim upon the underwriters. No single claim on account of particular average may exceed the total sum assured, but a ship may, during the currency of a policy, meet with a series of accidents, and the total repairs may amount to more than the total sum insured. (In this connection there is a distinct difference between marine and fire insurance.) The measure of indemnity being the reasonable cost of repair, if the damaged ship be sold instead of being repaired, the assured can claim for depreciation in the value of the vessel arising from the unrepaired damage, providing it be not in excess of the reasonable cost of repairing the damage.

*Particular Average Loss on Goods (Cargo).*

Where different species of goods are insured under a single valuation, in one policy, the total loss of any particular species of goods is regarded as a total loss, and not as a partial loss. Thus, if a cargo of jute and rice belong to the same owner, and is insured on the same policy, the loss of the whole of the jute, or of the whole of the rice, is deemed a total loss of a distinct species of goods, whereas a loss of part of the rice and jute is a particular average loss.

The measure of loss to the shipper of goods, or to his consignee, as the case may be, is the difference between the gross sound value and the damaged value at the port of arrival. If A. ships goods to Melbourne and they suffer damage on the voyage, A.'s loss is exactly the difference

between the sound and damaged values. If the wholesale price (or gross value) of such goods in sound condition be £1000, but, by reason of damage, they fetch only £600 at a sale, A. has lost £400 as a consequence of the damage to his goods. Whether, or not, he can claim £400 from the underwriters will depend upon the sum for which he insured them. Had he insured them for £1000, and paid a premium upon that sum, his claim will be for exactly £400; but if he insured them for £750 only, he can claim no more than £300. This matter must be made perfectly plain, and may be argued thus: A. possessed goods of the value of £1000, but insured them for £750 only, therefore a total loss would enable him to recover £750, he being a loser of £250, for which he was uninsured; in other words, he insured them with the underwriters for three-fourths, and took the risk of one-fourth upon himself. Should the goods suffer damage to an extent of 40 per cent. of their value, the underwriters will pay a claim of 40 per cent. on the sum they insured (*viz.* £750), and the owner will bear the loss on the uninsured portion of the value (*viz.* £250). It is evident that if A. wished to be fully protected he should have insured for the full value, and paid a premium accordingly. Many merchants do not, and, apparently, cannot, see why they should suffer at all, so long as the claim they make is not greater than the total sum assured. Perhaps another example will assist us. B. shipped goods, and insured them for £1200. They were damaged on the voyage to such an extent that, although in sound condition they would have sold for £1000, in their damaged state they only fetched £600. Here, again, his loss is £400. But it is a loss, by way of depreciation, of 40 per cent., and, as the insured value was £1200 he will claim 40 per cent. on £1200 = £480. (a)

(a) Should the loss be  $\frac{4}{10}$ ths, the assured could claim £1100,

The measure of the loss is the difference between the sound and the damaged values, and may be expressed as a depreciation of so much per cent. upon the sound value. The measure of the indemnity he may claim is the amount of that percentage of depreciation applied to the insured value.

A. and B. each shipped goods, the arrived sound value of which was £1000, and the damaged £600. The measure of the loss each was £400, constituting a depreciation of 40 per cent. on the sound value. They may claim, as the measure of indemnity, as follows, viz. :—

A.—Depreciation of 40 per cent. on an insurance of £750 = £300.

B.—Depreciation of 40 per cent. on an insurance of £1200 = £480.

To secure a perfect indemnity—an exact recompense for their loss—they should have insured the goods for their exact wholesale price at the port of arrival; but, since this is a fluctuating price, depending upon the supply and demand in the market to which the goods are consigned, it is impossible to insure for their exact value, and such a thing as a perfect indemnity is unattainable.

So far, we have referred to damage to goods insured by a policy on which the insured value has been declared. Now we will turn to the consideration of particular average losses where the insured value is undeclared, or on “unvalued” policies. Produce is often shipped to England, upon which a policy of insurance is effected here. The ship will probably have started on her voyage before even the quantity or value of the produce is known in London. The policy will show the total amount which the insurance cannot exceed, but the value will be left open, to be declared as soon as definite advice reaches this country; and, in the event of a loss before such declaration,

"insurable value" will take the place of "insured value" in calculating the damage. The "insurable value" of goods is their prime cost, plus expense of and incidental to shipping and the charges of insurance. A claim for damage will, therefore, be established, by ascertaining the percentage of depreciation on the sound gross value, or wholesale price at the port of arrival, and apply that percentage to the "insurable" value of the goods.

Underwriters will not be responsible for the rise or fall in market values of commodities in the markets to which they are consigned. The risk of fluctuations in such values is the concern of the merchant, who may be presumed to know his business, and insure accordingly.

Another form of particular average loss on goods, is the total loss of some portion of a species of goods, as of the total loss of 10 bales of wool in a shipment of 50 bales. To establish a valid claim, find the insurable interest of the lost part and its proportion to the insurable value of the whole, and then apply that proportion to the total insured value.

In preparing a claim for particular average loss, it is necessary for the assured to produce the following documents, viz :—

- (1) Captain's protest.
- (2) Set of Bills of Lading.
- (3) Policy of insurance.
- (4) Certified statement by surveyor of sound market value at port of arrival.
- (5) Certified account sales of damaged goods.
- (6) Account of survey expenses (which will be allowed to the insurer, provided the claim attains the franchise without their addition).

*Particular Average Loss of Freight.*

Freight is the hire for carrying goods in a ship. If it is not "advance freight" it is payable at destination, and only upon the production of the goods in respect of which it is demanded. No portion of it can be claimed upon goods which have been lost, and the loss of any goods, therefore, involves a loss of freight. The delivery of the goods in a damaged condition by reason of a peril insured against does not alter or affect the amount of freight payable upon them. There may, thus, be a particular average loss of cargo with or without a particular average loss of freight. The measure of indemnity recoverable from the underwriters, is the proportion of freight lost to the total freight at risk, applied to the insured value of the freight; or, in the case of an unvalued policy, applied to the insurable value of the freight. The "insurable" value of freight is the gross amount of freight at risk plus the charges of insurance.

## CHAPTER XI.

### GENERAL AND PARTICULAR AVERAGE, COMBINED STATEMENT.

IN the statement here illustrated, it is supposed that the sailing ship *Amadeus* left London with a cargo for Bilbao (Spain), and that in consequence of being struck by some large floating wreckage, she sustained serious damage, necessitating recourse to a port of repair. The assistance of life-boat and other crews was obtained and a pilot put on board to pilot her into the harbour at Cowes, as being a convenient port; the mishap having occurred off St. Catherine's Point, Isle of Wight.

The first column on the left of the statement contains every payment or form of disbursement.

The reader of the fore-going chapter will have seen that the actual damage to ship, etc., is a particular average loss, but that the need of seeking a port of repair is for the general interest of the whole adventure. All charges incidental to the safe arrival of the ship in Cowes harbour, are chargeable in general average, and are, therefore, found in the column under that heading.

Pilotage into Cowes is, of course, included therein; as well as the award to the crews of the boats rendering the required assistance, anchorage at Cowes, and sundry other small disbursements.

The cost of the average statement is then added, and it is found that the amount due in general average is £63 14s. 0d.

This sum of £63 14s. 0d. has to be borne by ship-owner, freight-owner, and cargo-owner in proportion to the value of their several interests. The ship was valued (sound value) at £2000, but from this must be deducted

the £68 representing the depreciation in her value before requiring assistance, leaving £1932; the net value of the freight which will be earned by the arrival of the vessel safely at Bilbao, is £250; and the value of her cargo is £15,000. The total value of the whole adventure is £17,182, and the total cost of saving it, £63 14s. 0d.; the proportion payable by each interest being: ship, £7 3s. 3d.; freight, £0 18s. 6d.; and cargo, £55 12s. 3d.; and these items are carried into the several columns under those headings.

The repairs to the ship were carried out without dry-docking, and the cargo was left aboard ship. The cost of these repairs was £99 15s. 0d., but as new material was supplied in place of the old material, an allowance of one-third had to be made by the ship-owners, who have to pay £33 5s. 0d. therefor. The balance of two-thirds, or £66 10s. 0d., is carried into the "ship" column.

The pilotage out of Cowes harbour is a particular charge on freight and is carried into the "freight" column. The addition of the various columns shows the apportionment of the total loss of £172 16s. 0d., as follows, viz:—

APPORTIONMENT.		£	s.	d.
The ship-owner pays "new for old" material	.	33	5	0
The freight-owner, or freight insurer (if it be insured)	.	9	4	6
The shipowner, or underwriter on ship (if it be insured)	.	74	14	3
The cargo-owners, or underwriters on cargo (if it be insured) each in proportion of his value to the total of £15,000	.	55	12	3
Total of loss	.	£172	16	0

There is a general average contribution on cargo; a general average contribution and a particular average loss on ship; a general average contribution and a particular charge on freight; and a contribution not covered by insurance by the ship-owner because his ship has been improved in value by the new materials used in her repair replacing the partly-worn old materials; all these various interests are shown in this one small account.

## STATEMENT OF GENERAL

Per *Amadens*, Captain Ewen, London to Bilbao, occasioned by being sustained, as appears per protest; assistance was obtained, a pilot taken ship was repaired.

Total.			Disbursements.			
£	s.	d.				
7	15	6	Pilotage into Cowes	.	.	.
2	2	0	Surveyor's fees	.	.	.
4	18	6	Noting and protest	.	.	.
45	0	0	Award to boat rendering assistance	.	.	.
0	15	0	Anchorage and harbour due	.	.	.
70	15	6	John Wilson, shipwright	.	.	.
21	4	0	Thomas Stoncham, mast, etc.	.	.	.
7	15	6	W. Collinson, smith's work	.	.	.
1	1	0	Spanish Consul's certificate	.	.	.
0	10	6	Ditto Bill of Health	.	.	.
7	15	6	Pilotage out of Cowes	.	.	.
1	1	0	Postage and Petties	.	.	.
2 2 0			Statement of average	.	.	.
<i>Contributions to General Average.</i>						
Ship valued at			£ 2,000			
Less						
Particular average			68			
Freight, net value			£ 1,932	pay	7	3
Cargo, value			250	pay	18	6
			15,000	pay	55	12
Total value			£ 17,182	pay	63	14
172 16 0					0	..

London, 17th July, 1907.

X. Y. Z., Average adjuster.



# GENERAL AND PARTICULAR AVERAGE

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## AND PARTICULAR AVERAGE.

struck by floating wreckage off St. Catherine's Point, damage being on board, and, for the general preservation, put into Cowes, where the

General average.	Ship net	Ship (less $\frac{1}{3}$ rd).	Freight.	Ship owners.	Cargo.
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
.. 7 15 6					
.. 1 1 0	1 1 0				
.. 4 18 6					
.. 45 0 0					
.. 0 15 0					
..		70 15 6			
..		21 4 0			
..		7 15 6			
.. 1 1 0			0 10 6		
..			7 15 6		
.. 1 1 0					
..	66 10 0	99 15 0		33 5 0	
		$\frac{1}{3}$ to owners $\frac{2}{3}$ to ship			
.. 61 12 0	67 11 0		8 6 0	33 5 0	
.. 2 2 0					
.. 63 14 0					
	7 3 3		0 18 6		55 12 3
.. 63 14 0					
..	74 14 3		9 4 6	33 5 0	55 12 3

## LIFE AND FIRE INSURANCE.

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### INTRODUCTION.

PROPERTY and persons are alike continuously exposed to certain dangers, and prudent people, to ensure to themselves or their dependants the continuance of an income, are content to pay part of that income to others who will take upon themselves the risks of loss arising from these dangers. A contract of insurance is, therefore, in the nature of a speculation, but, to provide against gaming or wagering, the law requires that only such persons as have a real pecuniary interest in the thing insured may enter into these contracts. Hence, no person may legally effect an insurance on any kind of property, or upon the life of another person, who would not suffer a financial loss by the destruction of the property or the death of the person insured. The person for whose benefit the insurance is effected, casts the risk of loss upon the insurer, and the business of the latter is to convert this risk from pure speculation into almost certainty. Abundant statistics are at his command, and he may calculate the probability of a loss at a stated proportion to the whole of that class of property at risk. He knows, not only how many buildings exist, and how many of these take fire annually, but he divides them into many distinct

classes, and fixes the proportion of losses to the total in each class. He ascertains the total sum of losses arising from perils of the sea, and the total value of ships and goods exposed to those perils ; and, after classifying these, he is able to fix this proportion in each class. The average duration of life of men engaged in various occupations, and of stated ages, is no longer a matter of speculation but of ascertained fact. The business of the insurer is to arrange his insurances of these different classes of risks over a very wide field, to insure so many of each class for moderate sums, that his proportion of losses to his insurances shall be, as nearly as possible, the ascertained proportion of all losses to all risks. He then fixes a rate of premium to be paid by the assured to cover the risk of loss and provide for expenses of management, etc. Such a system eliminates in the greatest possible measure the element of speculation, and provides a certainty of means to pay for losses.

Good faith is essential to all contracts of insurance, and any false statements or representations made for the purpose of obtaining a lower rate of premium, gives the insurer or underwriter the option of cancelling the contract.

In respect of property, whether the insurance be against fire or against marine risks, the sum which may be claimed in case of loss or damage, is the value of the actual loss sustained. These insurances are called contracts of indemnity, and their purpose is to guarantee the assured only against pecuniary loss, as will be explained and illustrated under the separate sections.

In respect of life insurance, the measure of indemnity cannot be so fixed, and is, therefore, the amount stated in the policy of insurance.

The three principal branches of insurance, are fire, life,

and marine; and each of these requires, on the part of the insurers, so minute a calculation and so intimate an acquaintance, that insurance companies and underwriters generally adopt only one or two of these branches as their business. Some few offices undertake business in all branches, but have a separate staff and manager for each.

The volume of business transacted by the many offices and underwriters is strong evidence of the prudence of the people of this country, and the need of some knowledge on their part of the various forms of contract entered into daily.

The Workmen's Compensation Act of 1906 (*a*), which came into force on July 1st, 1907, has extended the rights of compensation to clerks, and to domestic and other servants, and insurance policies to cover accident risks to servants will probably soon number many hundreds of thousands.

(*a*) 6 Edw. 7. Ch. 58.

## CHAPTER I.

### WHOLE LIFE INSURANCE.

THE mainspring of life insurance is a laudable desire on the part of a person having others dependent upon him, to provide a sum of money for those dependants in the event of his death. Provision might be made by periodically investing a proportion of his income, but the uncertainty of living long enough to complete this provision, and the destitution which his premature death would entail, makes it incumbent upon him to insure his life. He is willing to pay an annual premium to a life office, in exchange for their undertaking to pay to his dependants a stated sum upon his death. The amount of this premium is fixed at a percentage of the sum insured, and will become greater as he becomes older at the date the contract is made.

If this contract were merely renewable at will on the part of the Life Office, the annual premium would generally increase each year, because the probability of a man of, say, 60 years of age reaching his next birthday, is not so great as that of a man 30 years old. But the particular class of insurance discussed in this chapter is known as "Whole Life Insurance," and is one in which the office quotes a premium fixed for the whole of the life of the assured. The annual premium remains the same throughout, but the risk of loss by the Office steadily increases each year.

until it becomes a practical certainty, and it is clear that the premium paid by a man aged 30 must be greater than the risk involved for one year ; must, in fact, be equal to the average risk spread over the number of years which he may be expected to live, after taking into account the interest the office will earn upon the money they receive as premium.

The first thing is to determine the probable duration of the life of the assured, and for this purpose many tables have been prepared, being the results of the actual experience of some office or group of offices, or the carefully compiled statistics of some person. The persons upon whom falls the duty of measuring the risk involved in every class of life insurance are called Actuaries, and it is a duty demanding the greatest care and thought, and mathematical accuracy.

Now, if we ascertain that of persons living at the age of 30, some will die at 31, and others at intermediate ages up to the age of 100, when the last one dies, we might be led to suppose that the "average" man of 30 will live until he is 65. Some will live only 1 year longer and some 70 years longer, the average being 35 years ; therefore, the average expectation of life will be 35 years. But we have not taken into account the fact that more will die before they reach 65 than will then remain alive. We must know how many will die during each succeeding year, to arrive at the "average" or "mean." Let us take a simple illustration apart from life insurance. The houses in a certain street are of various heights, the shortest being 25 ft. and the tallest 65 ft., and we ordinarily say the average is 45 ft. There are, altogether, 100 houses, of which 18 are 25 ft., 20 are 30 ft., 30 are 40 ft., 20 are 50 ft., 10 are 60 ft., and 2 are 65 ft. high. To arrive at the mean height of the houses, we must multiply the houses of each height by the

number of feet; add them together, and divide by the total number of houses in the street.

$$\frac{18 \times 25 + 20 \times 30 + 30 \times 40 + 20 \times 50 + 10 \times 60 + 2 \times 65}{100} = \frac{3980}{100} = 39 \text{ ft.}$$

Now we arrive at the "mean" height of the houses, namely 39 ft. We have counted 25 ft. 18 times, and 30 ft. 20 times and so on, and this 18 times and 20 times are called "weights." In other words, we have attached due weight to the fact that there was a different number of houses of each particular height, and not treated it as if there were an equal number of each.

In arriving at the expectation of life of a person aged 30, actuaries take a number of, say, 100,000 living at 30, find from statistics of actual experience how many such live to be 31, 32, 33, and so on; multiply the number dying each year by number of years they lived after 30; add these together, and divide by the aggregate number of lives, viz. 100,000.

It must not be supposed that the calculations begin and end with the establishment of a "mean" from observing one set of statistics, or the actual experience of one office. Very many observations are made, and there is naturally some difference in the result. The mean of all the results is taken; then the extent of the deviation or "error" of each result from this mean; then, the sum of the squares of these errors divided by the number of results minus one; the square root of this figure obtained is divided by the square root of the number of results and multiplied by two-thirds (about); and thus is found the "probable error" of the mean. "Probable error" is not, of course, the greatest possible error; there will be many individual cases where the error is without, but there will be an equal number within the limits of this probable error. It is an

even chance whether a case falls within or without the limit. The business of computing the mean expectation of life for persons of every age, has been made a fine art, and the Institute of Actuaries publishes a mortality table which has been arrived at after much research, and adopted by many of the leading life offices. This is known as the Healthy Males table, Hm.

The basis of all calculations of premiums by life offices is the healthy life, or the "first-class life," and many offices will not accept any other class of risk. There are, however, some few which accept "second-class lives," at enhanced premiums; calculating either at an extra percentage on the ordinary premium, or by "rating-up" the age of the assured and charging a second-class life aged 30 at the rate of the ordinary premium of a life aged, say, 35.

A life insurance office can calculate fairly accurately the rate of interest obtainable from its investments, and, by setting this against the risk, arrive at the actual premium which is required to provide a certain sum at the death of each person assured.

A rate of premium thus arrived at leaves out of consideration the expenses of management of the office, and provides no reserve in case of exceptional mortality on account of prevalence of some epidemic or otherwise; and something is added for these purposes by a process termed "loading." A still further "loading" is necessary to provide a profit for the shareholders in the case of a company's office.

The whole life table may be with or without profits, and the sum assured is payable only upon the death of the person whose life was insured. The premiums are payable annually until such death occur.

Female lives are often insured at an extra premium until fifty years of age, and thereafter at the same rate as



the ordinary male table. Persons who follow an occupation deleterious to human life, as publicans, are charged at special rates. They are termed "hazardous" risks.

Throughout it has been supposed that the office has a sufficiently large business, covering so many lives of every insurable age, as to warrant the assumption that the proportion of losses to risks generally will apply to its own case particularly. Only under these conditions can it be sound. If, therefore, any office, however good, ceases to accept new insurances, or finds its new business seriously diminished, it may be compelled to amalgamate with another office doing a large new premium business in order that its field of operations may not decrease. The proper distribution of its business to cover lives of all ages proportionately, and so bring it within the scope of probabilities based upon calculations, as here described, has led to several amalgamations. This proper distribution also precludes an office from taking too large a single risk, and, although the assured may have obtained from one office a policy for a very large sum, he may rest assured that this office has re-insured a portion of its risk with other offices—a very common feature of life insurance.

### *Surrender-Values.*

The sum paid by an office upon the surrender of a policy by the policy-holder is oftentimes considered an insufficient return. It is held that the office should be liberal in the price it pays for surrender, because it cannot any longer sustain a possible loss, and it is seldom that the policy-holder reflects that his surrender really tends to weaken the office. A large number of surrenders must be accompanied by a much larger new business, or the area covered is smaller. Again, although there has been a

process of selection of lives by medical examination and inquiry into the lives of the antecedents of the assured, the values of different lives are not always the same, and it may be assumed that it is not the worst admitted lives which desire to surrender.

## CHAPTER II.

### WITHOUT-PROFITS, AND WITH-PROFITS.

To any person desiring of securing the largest possible assurance for a given annual payment or premium, a "Without-profits" policy may suggest itself. The rate of premium is lower because the assured does not share in the profits of the office, but this method of insurance is not really as economical as that of a "With-profits" policy. It has been seen that every office, in calculating its rates of premium, takes into account the interest on its investment of the premium money ; and, since the rate of interest of necessity varies, its calculations must be based upon the lowest rate of interest. Doubtless it will, within any lengthened period, earn a much higher rate of interest, and thus make a profit, which is wholly, or in part, returned to the holders of "With-profits" policies, but not to the other class. To ensure safety an office fixes a premium rate, which makes allowance for cheap money, and if money be dear, and its investment yield a good return, the "With-profit" policy-holders reap the benefit of the increased income. A fuller measure of return for the premium is made than it would be possible to guarantee.

It is also a well-known fact that the average duration of a man's life tends to increase, that the mortality from the worst forms of diseases which are epidemic is appreciably

less than forty, or even twenty, years ago, and that medical and sanitary science have made immense strides. But the rate of mortality upon which the offices base their premiums do not make the fullest allowance for this increased security to life, and their profits are increased by this decreased mortality.

Periodically the actual profit is definitely ascertained, and at least a portion of this becomes the property of the assured, who may sometimes elect to (a) receive the bonus in cash, (b) have it added to the sum assured, or (c) have it applied to the reduction of his annual premium.

An intermediate system is adopted by at least one office of excellent repute. It recognizes that it is impossible to guarantee a fixed sum to "Without-profits" policy-holders which shall be as full a measure as may be possible, and, further, argues that no person should share in present profits who may ultimately become a loss to the office. It reckons the average rate of interest on its investments at just over 4 per cent. per annum, and, in effect, says to the assured, "We received your premiums, which are invested at 4 per cent., and when the sums you have paid plus 4 per cent. compound interest reach the amount insured by your policy—when, in other words, the office cannot be a loser by reason of your assurance,—then, and not before, you are entitled to participate in the profits." Its rates of premium are cut finer than those of offices which give bonuses to all policy-holders, but are still higher than those of the non-participating class of policy. The sum of profits is, naturally, less than that of most other offices, but the number of participants is proportionately small, and the system has advantages for the very best lives.

Here, then, we have three distinct systems, which may be summed up thus :—

*Without-profits.*—Guaranteeing a larger sum assured, but yet affording to the policy-holder something less than he may probably be entitled to under the with-profit system.

*With-profits.*—Entitling the policy-holder, beyond the sum assured, to a further assurance, which shall be as large as the profits of the office permit.

*Intermediate System.*—Charging the policy-holder at a rate slightly above the without-profit system, and allowing him to participate in the profits only when it is impossible for his connection with the office to prove a loss.

## CHAPTER III.

### OTHER FORMS OF LIFE INSURANCE.

(1) *Partnership Insurances.*—These are a very welcome feature in life insurance business and deserve better recognition. Few people with extended business connections have not met instances in which a promising firm has been unable to carry on its business by reason of the death of one of the partners, and the consequent withdrawal of his capital from the business. Perhaps the deceased partner held the greater part of the capital of the firm, and its withdrawal spelt ruin to the remaining working partners. A partnership insurance is in the nature of a joint assurance, or an insurance of joint lives. Upon the death of any one of the assured the sum assured is payable to the co-assured. As the premiums are paid for the benefit of all, they are generally charged to the business as part of its expenses, and the sum assured is devoted to paying out the capital of the deceased partner. The premium of a policy on two joint lives is necessarily higher than on a single life of a similar age, and one on three joint lives is still higher, because the probability of an early claim is greater. The principle of assurance on joint lives is not confined to partnerships, but its advantages are most pronounced in connection therewith. The system of insuring joint lives for the benefit of the survivor is, of course, not confined to business partnerships.

(2) *Estate Duty Insurance*.—This duty is not a small one, and its payment constitutes an embarrassment, if not a temporary hardship, in many cases. To provide against this, an insurance may be obtained upon the life of the testator whereby the office undertakes to pay the sum assured to the Inland Revenue Authorities for probate.

(3) *Reversionary Bonus System, or Bonuses Discounted*.—Some offices have devised a means of provision of the largest possible amount of insurance combined with participation in profits. Such a combination of desirable objects had appeared impossible, and, in fact, in any "with-profits" system there cannot be a constant amount in both premium and sum insured. The discounted bonus system fixes the sum assured, but leaves the amount payable by the policy-holder subject to a possible variation. The office makes an estimate, based upon past earnings, of the profits likely to accrue; and, instead of waiting until these are secured before distributing them, deducts them at once from the amount of the premium. In effect, it discounts the bonus by paying it in advance of its due date. In the event of the realized profits being less than the estimate the policy-holder is called upon to pay the difference; or, should there be a sum realized in excess of the estimate, the balance is distributed among the assured. This system furnishes a striking instance of the desire, on the part of our life offices, to meet the demands of the public in the fullest measure compatible with security.

*Partially Deferred Premiums, or Low Premium for First Few Years.*

Where the assured has a permanent position, with the certainty of an increasing salary, such increase being greater than that of his probable necessary expenditure, and where

circumstances require him to provide a larger measure of insurance than his present income allow, this class of policy offers advantages.

It has been seen that in ordinary insurance policies the assured pays a higher rate than necessary during the early period of insurance in order that he may pay less than the cost during a later period. The office does not run so great a risk in the early years as later on, and equalizes the premium that it may be constant throughout life. Probably during the first five or six years a premium at half the ordinary rate would meet the requirements of the office, and the assured may take a policy at about half-rates for five years. He will, however, be required to make this good subsequently, and the premium after five years onwards will be greater than the full premium at the date of entry.

Premiums are generally based upon annual payments, but most offices will accept half-yearly or quarterly payments, charging a slightly higher rate; and the vast "Industrial" insurance business done in this country is usually by weekly payments of from one penny upwards.



## CHAPTER IV.

### • ENDOWMENT ASSURANCE AND ANNUITIES.

IT has been said that the mainspring of life insurance is a desire to provide for dependants in the event of premature decease, and, generally, the need for this provision decreases with advancing years. The children for whom provision was needed become competent to take care of themselves, and the assured's greatest need a provision for his own old age. How may he, then, by the payment of a single premium, secure both? All life offices will issue a policy, assuring a stated sum in the event of the death of the assured before he reaches a stipulated age (50, 55, 60, or 65) or the payment to himself of that sum on his attaining the agreed age. Here, then, is found an answer to the question.

The rate of premium will be greater than that of "whole life assurance," as the payment of the sum assured is not indefinitely prolonged, but must occur within a restricted period. The number of premiums are also restricted, and the office may not reap the advantage of the long life of the assured. In the whole life assurance, they may set off against early death claims the greatly deferred claims and many annual premium payments of the longest lives, but endowment assurance provides little towards such a set-off. Since, therefore, this source of possible profit is denied, in

great measure, to the office, the premium must be "loaded" to a commensurate degree, and the interest accruing to the office thereby increased.

The assured, in some offices, has the option of either taking the sum assured upon the attainment of the prescribed age, or an annuity for the remainder of his life with forfeiture upon his death; or a smaller annuity for the remainder of his life, and then payment of the sum assured to his family.

Policies upon the lives of children is not an altogether desirable form of life insurance, but endowment policies for children are admirable in many ways. The payment of the sum assured may be made to depend upon the child attaining twenty-one or any number of years of age, and the object may be to start a son or daughter in business, or enable them to continue their education beyond the period usually permissible to other than wealthy people. A smaller premium is charged if the event of the death of the child releases the office from all liability, and a larger premium if the sums paid as premiums, are, in such event, to be returned without interest to the parent. It will be observed that the risk involved in children's endowments is of a different character to that in ordinary endowments. In both cases the sum assured is payable on the assured reaching a specified age, but death before that age voids the policy in the case of a child, while it renders an immediate payment necessary under the ordinary policy; the office gains in the former and is a loser in the latter instance.

*Annuities.*—This is one method of securing a larger income from a given sum of money than could be obtained from its safe investment. Annuities may be immediate or deferred, which means that the payments by the office may commence at once, or their commencement may

be deferred for a period, and their amount proportionately increased. Instead of investing a lump sum of money, it is paid to a life office which undertakes in exchange to pay the assured a certain sum, either quarterly, half-yearly or yearly during the remainder of his life, or for a specified number of years. It will be observed that the premature death of an annuitant is a gain to the office, and there is, therefore, no need of selection by enquiry and medical examination.

## CHAPTER V.

### PROFITS OF A LIFE OFFICE.

THE yearly accounts of a life office, which are published by the office and may be had upon request, consist of a "Revenue Account" and a "Balance Sheet."

The revenue account shows the funds of the office at the commencement of the year, and the amounts received for premiums and interest on investments, on the one side; and on the other, the payments on account of claims, surrenders, commission, expenses, etc.; and the balance of this represents the amount of the funds at the close of the year.

The balance sheet shows these funds as a liability, to which is added claims not paid, etc.; and the assets reveal a list of investments, mortgages, premiums due and not paid, cash at bankers and in hand. It is really a statement showing how the funds are invested by the office.

Neither of these yearly statements refers to profits, which are computed only at longer intervals of five or seven years.

Given the age of a man (his expectation of life is found by reference to the tables), the conditions of his insurance, and the amount for which he is insured, the present value of the assurance or liability to the office is soon determined; but to ascertain the profits it is necessary to find the present value of the liabilities of the office to *all* its policy-holders, and this is a work entailing much labour. The funds of

the office will probably be greater than the total of these liabilities, revealing a surplus which is at the disposal of the office. A portion of the surplus will probably be carried to the general reserve fund to increase the stability of the office, or provide against any future abnormal number of claims, a further portion, in the case of companies' offices, will be devoted to the payment of a dividend to the shareholders, and another portion will be distributed as a bonus among the policy-holders.

The present value of £1 payable at the death of a person depends upon his age and the rate of interest calculated. Find the total sum assured to people of each age and multiply it by the present value of £1 payable at death. Suppose that an office has assured a number of people who are now aged 45, and assume that the present value of £1 payable upon their death is £0.5, and the total sum of their assurance £150,000. By multiplying £150,000 by 0.5 we arrive at the present value of that assurance, viz. £75,000. Now find the present value of the several sums to be paid by the policy-holders as yearly premiums. If this be found to be £40,000—the net liability of the office will be its gross liability to policy-holders, £75,000, less present value of their liability for future premiums, £40,000—viz.: £35,000. To find the value, 5 years hence, at 10 per cent. compound interest of the sum of £100. First find the value of £1 which will be  $(£1\frac{10}{100})^5$ , or  $(£1\frac{10}{100})^5$ , or  $(£1\frac{10}{100})^5$ . In other words,  $£1\frac{10}{100}$  must be multiplied by itself five times (*i.e.* raised to the 5th power).

$$£1\frac{10}{100} \times £1\frac{10}{100} \times £1\frac{10}{100} \times £1\frac{10}{100} \times £1\frac{10}{100} = \frac{161051}{100000} = £1.61051.$$

$$\text{And } £100 \text{ will be } £1.61051 \times 100 = £161.051 = £161 \text{ } 1 \text{ } 0$$

To find the present value of £100 due 5 years hence, computed at 10 per cent. compound interest.

Take a capital of £1.

This will amount, in 5 years at 10 per cent., to  $(£1\frac{1}{10})^5$ .

If £1 amounts to  $(£1\frac{1}{10})^5$ ,  $\frac{1}{(£1\frac{1}{10})^5}$  or  $(£1\frac{1}{10})^{-5}$  will amount to £1.

Therefore  $(£1\frac{1}{10})^{-5}$  is the present value of £1 due 5 years hence.

The power here is a minus power, and the fraction will be reversed before multiplication.

$$£1\frac{1}{10} \times 1\frac{1}{10} \times 1\frac{1}{10} \times 1\frac{1}{10} \times 1\frac{1}{10} \times 1\frac{1}{10} = 1\frac{61005}{100000} = £0\cdot6209.$$

$$\text{And } £100 \text{ will be } £0\cdot6209 \times 100 = £62\cdot09 = £62 \quad 1 \quad 10$$

Where the period is a very long one, this method of working would be almost interminable, and the invention of logarithms has simplified it. Find, to the nearest penny, the present value of £78 due 15 years hence at 3 per cent. compound interest.

$$78 (£1\frac{3}{100})^{-15}, \text{ or } 78 (£1\frac{03}{100})^{-15}.$$

From a table of logarithms, it will be found that  $\log. 103 = 2\cdot0128392$ , and  $\log. 100 = 2$ . Instead of dividing 103 by 100, we merely subtract  $\log. 100$  from  $\log. 103$ , thus—

$$2\cdot0128392$$

$$2 \quad \underline{\quad}$$

$$0\cdot0128392$$

remains, and this is multiplied by the number of years, viz. 15.

$$0\cdot0128392$$

$$\underline{\quad} 15$$

$$641960$$

$$128392$$

$$\underline{\quad} 1925880$$

Next, we refer to the tables again to find that  $\log. 78 = 1.8920946$ . Because the power  $(-15)$  is a negative or minus power, deduct from—

$$\begin{array}{r} 1.8920946 \\ .1925880 \\ \hline 1.6995066 \end{array}$$

Turning again to the tables, we find that  $\log. 50.0651 = 1.6995066$ , hence the answer is £50.0651, or £50 1 4.

Had we wanted to find the sum which £78 will amount to in 15 years at 3 per cent. compound interest, we should have added together 1.8920946 and .1925880, making 2.0846826, and found what log. equalled that figure, such log. representing the value in pounds sterling.

## CHAPTER VI.

### COURSE OF BUSINESS.

THE person proposing to effect an insurance upon his life is required to fill up a proposal form. He must give definite answers to questions relating to the past history of his family, to guide the office as to the probability of an hereditary tendency to certain diseases; and to other questions relating to the diseases from which he has suffered, his mode of life, etc. The offices rely so largely upon the information herein given by the proposer, that one of them is prepared to dispense with a medical examination where the proposal is entirely satisfactory; and any mis-statement by the proposer renders the contract voidable at the option of the office, whether or not there has been a medical examination. The references given by the proposer serve a double purpose, enabling the office to obtain supplementary or confirmatory information as to the habits of the proposer, and affording its representative an introduction to the referees, to whom he may explain the advantages of life insurance, with a view to securing another customer.

The acceptance by the office and the payment of the first premium completes the contract, which finds expression in the form of a Policy. This policy is assignable, but



no assignment is complete until it is in the form of a deed of assignment, and registered in the books of the office. Some offices have a special form of deed for this purpose, and do not care to register an assignment on any other form. When money is lent on the security of a life policy, the lender should always require (a) the policy, (b) a deed of assignment, and (c) registration of the deed by the office. A deed of assignment alone confers an equitable title on the assignee, but it may be defeated in favour of some prior equitable title; and an assignment with registration confers a very good equitable title, but is incomplete without possession of the policy. Another person may have a lien upon the policy and refuse to part with its possession until his debt has been satisfied.

An assured who desires to raise money on the security of his policy, cannot do better than arrange with the office in which he is insured to advance him a sum within its surrender value, and this it will do at a comparatively low rate of interest.

A policy may name a beneficiary, and is then transferable only with the consent of that person. If a man in solvent circumstances takes out a policy on his own life for the express purpose of benefiting his wife, and this fact is stated on the policy, she becomes the sole beneficiary, and in the event of his subsequent bankruptcy, the trustee has no control over the policy, because the bankrupt has not the power to dispose of it without the consent of the beneficiary, who need not consent.

No person may legally effect an insurance upon the life of another unless he has an insurable interest therein. This insurable interest must be a real pecuniary interest. A creditor may insure the life of his debtor, because his death would materially decrease the probability of payment.

of the debt, but the promise of a gratuity at a future date is not an insurable interest, as it is not binding upon the promisor, and may be revoked at his will.

An office does not always require documentary proof of the age of the assured at the time of admission, although age affects the rate of premium; but it will require this proof before payment of a claim, and it is far better for the assured to produce a certificate of his birth and get the policy marked "age admitted."

Some policies do not permit the assured to travel to, or stay long in, tropical countries, while others are more liberal in this direction; some except from benefits a case where the assured takes his own life, others pay a claim if the policy has been in force two years at the time of the suicide, and still others are content with a period of six months. Most offices stipulate that the assured shall not engage in naval or military professions or seafaring business.

A renewal premium is payable one year after the date of the policy, and on the same date in each succeeding year, but, generally, one calendar month's grace is allowed during which the renewal premium may be paid; and, although offices send out notices of renewal, the failure to receive such notice does not excuse the assured for the omission to pay the renewal fee.

Evidence of the death of the assured usually takes the form of a certificate of the Registrar, but sometimes it is impossible to prove death, although every circumstance points to the fact that the assured is dead. In such cases death may be presumed, the presumption being based upon evidence sufficient to convince an ordinary jury.

Life policies must bear an impressed stamp, the duty being as follows, viz. :—

	<i>s.</i>	<i>d.</i>
For a Sum assured not exceeding £10 . . . .		1
Exceeding £10 and not exceeding £25 . . . .		3
Exceeding £25 and not exceeding £500, for every £50 or fractional part of £50 . . . . .		6
Exceeding £500 and not exceeding £1000, for every £100 or fractional part of £100 . . . . .	1	0
Exceeding £1000. for every £1000 or fractional part . .	10	0

## CHAPTER VII.

### FIRE INSURANCE.

A CONTRACT of fire insurance is strictly a contract of indemnity, wherein the Fire Office agrees, in exchange for a payment called the premium, to recompense the assured for any loss of property caused by an outbreak of fire.

The property insured may be furniture, goods, buildings, or some few other items which will be mentioned later.

In the insurance of furniture this question of indemnity must be kept in mind, or the assured will fail to realize the extent of his insurance. Because an office issues a policy for £1000 in respect of certain household furniture, the total loss of that furniture does not necessarily involve the payment of £1000. It may be that its market value was only £500, in which case that sum will represent the total liability of the office. Occasionally an office sends a surveyor to inspect the property to be insured; but this is not the rule, and if it were, the premiums would be considerably greater on account of the largely increased expense. The assured fixes his own sum for which he desires to be insured, and, when a loss occurs, must prove the extent of that loss to the fire office, which will then pay the claim; and it is clear that every person insuring should be prepared with an inventory of the things destroyed.

If the assured have any article or articles of a very costly nature, especially a picture of a greater value than £20, he should declare this to the office, and see that its value is separately stated in the policy; but even this will not relieve him of the necessity of furnishing proof of its value in the event of a claim.

In submitting a claim for loss, due allowance must be made for depreciation in value by wear and tear, and the measure of this depreciation is often a source of trouble. This fact is not surprising, seeing that every one who has been deprived of an article is apt to estimate its value at something more than he would have done while it was in his possession.

Fire offices pay very many claims in respect of fires about the origin of which there is grave doubt, and if it were the practice to pay the full amount insured without inquiry into the measure of the actual loss, this class of claim would probably increase, with the result that a general rise in the rates of premium must follow.

The amount insured by the policy is the limit of liability of the office, and if, during the period covered by one premium (generally one year) there be more than one loss, the claims on account of the combined losses must not exceed the sum insured. Although the policy is usually renewed each year, it is optional with both the assured and the office to refuse to renew; and the office may charge an increased premium for renewal if it consider the risk demands it. Fire policies must bear a penny impressed stamp.

The policy names the premises in which the furniture is placed, and only covers it whilst on those premises; therefore any removal should be notified to the office, and the policy endorsed accordingly.

The rate of premium varies with the class of house containing the furniture, and its neighbourhood.

For furniture in an ordinary house of brick and slate or tiles not in the vicinity of manufactories, the premium is about two shillings per hundred pounds, whereas if rooms over a shop be occupied, the rate of premium will be much greater. Private houses near timber yards or chemical works are also rated higher.

Stocks of merchandise are usually insured annually, and it is to be feared that the numerous cases of under-insurance which come to light after any great conflagration, are the result of estimating the amount of insurance required by the stocktaking figures, although a very slight acquaintance with business practice would reveal the fact that stocks are then at their lowest. Where there is an occasional need of very large cover, a short period policy may be taken out, the rate of premium being proportionately greater for short than for long periods, and a policy for three months being charged at about half the annual rate.

Many merchants have, besides the goods in their own warehouse, other merchandise stored in dock and public warehouses and wharves, the value at each warehouse fluctuating with sales and fresh arrivals, and it is usual to insure all these under one policy, called a "floating policy." The total amount is stated on the policy, and goods of that value may be stored at any one or more warehouses within a prescribed area.

Where premises are let on lease, the lessee or tenant has to pay the rent even if the premises be burned down, and an ordinary policy of fire insurance does not cover this risk. It is desirable, therefore, to insure, separately, a year's rent, in order that the assured may not be a loser during the period of rebuilding.

*Assignment.*

Immediately the legal possession of goods passes from the assured, by sale or otherwise, his insurable interest in them ceases, and the risk no longer attaches to his policy. Goods stored in dock warehouses are frequently sold, and the property in them transferred to the buyer without their removal from that warehouse; but they cease to be at the risk of the fire office which insured them. The assignment of the goods does not include the assignment of the interest under the policy, and, generally, this interest cannot be assigned. In the case of marine insurance policies the interest may be assigned by the assured endorsing the policy and without notice to the underwriters, and in the case of life insurance policies the interest may be assigned by a deed of assignment, and notice thereof to the office; but no assignment of a fire insurance policy is effective unless the previous consent of the office has been obtained.

*Enlargement of Premises.*

Every addition or structural alteration to premises should form the subject of an arrangement with the office before the commencement of operations, or a policy on the goods stored therein may become void. Two adjoining warehouses may be rated at ten shillings per cent., but directly they become communicating, by a doorway being made through the party-wall, the risk is increased, because if a fire originate in either building it may easily spread to the other. It is common for the office to insist upon the fixing of double iron doors in such cases, one on either side of the party-wall covering the aperture, these doors being closed every night; in fact, most very large buildings are partitioned off by party-walls running from

the foundations to a point higher than the roof, with a limited number of openings protected by these double iron doors.

Many firms keep fire-extinguishing appliances on the premises, and some of the employees are well drilled in their use; and a further method of lessening the risk of an extensive fire is provided by the use of automatic sprinklers. A sprinkler installation consists of a hydrant or hydrants running from the main water pipe to the top of the building, and a series of pipes along the ceiling of each story. These pipes run in parallel lines about ten feet apart, and at frequent intervals along them there are nozzles through which the water may be forced and strike a star, which causes it to spurt upwards again and then cover a large area in its descent. Each nozzle is closed by a cap, which is secured in its place by solder which is made soluble at a degree of heat varying with circumstances. When this heat is attained by a fire in the building the cap falls away from the nozzle, and a stream of water poured upon the fire, and in the case of an extended fire many of these nozzles are uncapped and a very copious flow of water obtained. To provide against the possibility of the water-main being closed, a large tank or cistern is placed above the roof and always kept filled. Fire offices recognize the reduced risk on premises which are "sprinkled," and quote a lower rate of premium accordingly, but the risk which they undertake is one having fire as its origin, and any breaking open of the nozzles by accident or design, and consequent damage to goods by water, is not covered by a fire policy. It is possible, however, to obtain an insurance against this particular risk.

Most offices refuse to accept the risk of fire caused by earthquake, and the English offices which do a large



foreign business generally insert a clause to that effect in all policies they issue in respect of property in quarters where earthquakes may be expected. The terrible conflagration in San Francisco in 1906, with its enormous attendant losses, has proved the necessity for such a clause.

The classification of risks and rates of premium has been an immense work, and has been made more complete by the assistance the fire offices have mutually rendered to each other, leading to the formation of a tariff based upon the actual experience of all offices. And the fire offices have generally acknowledged that the large profits they often make should not be wholly regarded as profits which can be distributed either among shareholders or policyholders, but largely as a reserve, which may be called upon in the special circumstances of some gigantic conflagration. Householders frequently point to these huge reserves as evidence that they are paying too high a premium on their risks, whereas they have been built up by increased premiums upon specially hazardous risks. There has been abundant proof that the rates charged twenty-five years ago on buildings and stocks in certain city areas were altogether disproportionate to the risk, and the destructive fires of Wood Street and Jewin Street convinced the offices that larger premiums and greater reserves were necessary; and while the premiums on business premises in congested areas have risen considerably, those on ordinary dwelling-houses have shown no increase.

Buildings may generally be insured at a premium rather smaller than that charged for the contents, as they are not so liable to total destruction.

Hazardous risks, such as manufactories, especially where chemicals or goods specially liable to fire are made, are charged at premiums which the experience of the combined offices and the exhaustive reports of expert surveyors

show to be equitable, and in many cases the fire offices will not take the whole of the risk, leaving the assured under-insured, or his own insurer, for some part of the total value, or refusing to accept the risk unless it be "sprinkled."

There are, however, some few offices which do not recognize the general rates of the tariff offices, sometimes giving a lower quotation, and these are called non-tariff offices. They are neither numerous nor very powerful, and the best that may be said of them is that they may possibly act as some sort of check to the tariff offices increasing the rates of premium beyond reasonable bounds.

Many English fire offices do a large business outside the British Isles, and are represented by branches in nearly all the Colonies and in America. Other offices which have no agencies abroad also underwrite foreign risks, accepting a portion of those originally taken by the offices directly represented. Thus, the fact that one particular office paid an enormous sum on account of claims arising out of the fire at San Francisco, is no proof that its funds have been depleted to that extent, as probably it had re-insured part of the risks with other offices which did not do business direct with San Francisco.

The average clause is very frequently found in fire-insurance policies, and although it has many detractors the principle lies at the very root of insurance. The amount stated on the policy as the sum insured is the extreme limit of the liability of the office, but may not represent the full value of the property insured. For example: A merchant with a stock of goods of the value of £20,000 insures it for £15,000 only, being well aware that the total destruction of the goods would entail a loss of £5000 to himself, but also knowing that, in the vast majority of instances, the loss from fire is only partial. If

the damage prove to be £8000, the office will not pay that sum, but will take into account the total value of the stock at risk, namely, £20,000, and the amount of its insurance, £15,000; arguing that the assured took the remaining risks of £5000 upon himself, and that, therefore, the loss of £8000 must be borne proportionately by the office and the assured; three-fourths, or £6000, being due from it, and £2000 (one-fourth) being at the risk of the policyholder. Any alterations in this equitable rule would tend to benefit the person not fully insuring his property, at the expense of those who are careful to be fully protected.

## STOCK EXCHANGE.

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### INTRODUCTION.

PARTNERSHIP law does not confer upon any partner the power to dispose of his share or interest in the partnership undertaking without the consent of his co-partners. He may be entitled to withdraw a portion or the whole of the capital he has placed in the business, but he cannot sell his partnership wholly or in part.

The property in a partnership, not being transferable at the will of the holder, cannot form the subject of a purchase and sale in the stock exchange ; and the business of stock and share dealing is the outcome of a national debt and a system of joint stock enterprise.

The national debt was practically created in the reign of William the Third, when the national finances were placed in the hands of Parliament, which had to borrow money to keep up a national army. The wars of that reign necessitated large borrowings from the public, which received Government securities in exchange for its cash advances, and, as these securities were transferable at will, the desire to sell and purchase them gave rise to stock dealing.

The Bank of England was incorporated in 1694, and the success attending it led to the extension of the principle of joint stock holding to other ventures, with the result that the business of dealing in stocks and shares assumed some

importance. A joint stock company may consist of any number of proprietors, provided that it never falls below seven. Its capital consists of a given amount, and this may be divided into a number of *shares* of equal value, or each proprietor may contribute a sum towards the capital, which sum is called *stock*; and, in either case, the holder of shares or stock may sell his holding, with all interests therein, to another person. At different periods the public have exhibited so great a desire to invest their savings in joint stock enterprises, as to amount to a wild rush to procure shares or stock of any and every description, with the very natural result that enterprises of the wildest description have been launched as joint stock companies. Foreign Governments, requiring loans and having but doubtful security to offer, have profited by the cupidity of British investors, and the offer of a high rate of interest has been a sufficient bait to secure the money of which they were in need.

The vast industrial undertakings represented by canal, gas, railway, water and other companies were almost wholly of the joint stock order, and, although most of these have been of inestimable value to the country, some of them were ill-conceived and the investors lost heavily.

At a later date, when the alluvial deposits of gold had been exhausted, and recourse had been made to mining instead of digging for the metal, the great expense incurred in sinking shafts and providing machinery caused most works of this class to be undertaken by joint stock companies.

Industries of all kinds, manufacturing and trading, wholesale and retail, have assumed larger proportions, with a view to increased efficiency and output, and decreased expenditure, and joint stock companies almost innumerable have sprung up.

Individuals whose separate savings would have been insufficient for the purpose of carrying on a business, may now invest their small amount of money in a joint stock company, each becoming part proprietor in a gigantic business, and retaining the right to sell his part at will, or leave it by will to others.

The many thousands of different kinds of stocks and shares which are now bought and sold on the London Stock Exchange, has created a need for a special branch of business called stock and share dealing. This need has, of course, gradually arisen side by side with joint stock enterprise and national debts, and the class of men attracted to it has sometimes been of a most undesirable kind. Buying for investment is a very legitimate business, but buying or selling for mere speculation may easily degenerate into pure gambling; and because of this latter tendency, our legislature has, in the past, attempted to impose restrictions upon what are known as "time" bargains, wherein the seller had not, and the buyer did not wish, possession of the stocks or shares, but both were speculating for a rise or fall in the value of the securities, and intended merely settling their difference at the time agreed upon. Barnard's Act of 1734 was passed to "prevent the infamous practice of stock-jobbing," but became practically inoperative and was ultimately repealed.

As with every other commodity forming the subject of considerable exchange, so with stock and shares, a "market" was formed. The dealers found it convenient to meet at a central place to conduct their business and, in agreement with the practice of the times, they met at a City coffee house in Change Alley—Jonathan's by name. Here the public were admitted and could conduct their own business, or be present whilst their broker conducted it, and the course of business was not of a nature commanding the

respect of the public generally, or of the better class of dealers.

In 1801, some of the latter purchased the site upon which the present Stock Exchange stands; and by formulating a truly admirable set of rules for the admission of members, and the conduct of business, and by the exclusion of the public, they succeeded in raising the tone of stock-dealing to a higher level than probably any legislation could have effected.

For very many years stock-brokers were required to obtain a license from the corporation of the City of London, but the corporation has now no power in the matter, and it is open to any person with or without adequate means or conscience to act as a stock and share dealer. The advertisement columns of our daily press disclose the names of many such dealers, but they are not members of the Stock Exchange, and any person wishing to place himself in communication with a reputable broker who is a member, should apply to the secretary of the Stock Exchange for a list of members, as they may not advertise.

## CHAPTER I.

### SHARES, STOCKS, AND BONDS.

#### *Shares.*

THE capital of a joint stock company is usually divided into a number of equal parts, called shares, and any person may become possessed of one only, or of any number of these shares, providing that, in the case of a "limited" company, the number of shareholders shall not be at any time less than seven.

Joint stock companies may be limited or unlimited; that is to say, each shareholder's liability may be limited to the amount of the shares for which he subscribes, or it may be unlimited. In the latter case, every shareholder becomes liable for all the debts of the company; and, in the event of the failure of the company to pay its debts, may be called upon to make good any deficiency out of his private estate; it is not, therefore, surprising that there are very few unlimited joint stock companies. Subject to the provisions of the Companies Acts, 1862 to 1900, of which there are several, a company may become registered as a joint stock company with limited liability, and must include the word "limited" in its name upon all documents it issues, to enable any persons having dealings with it to see that the liability of its shareholders or members is



limited. A discussion of the provisions of these Acts is outside the scope of this book, and readers who desire information upon the subject may be confidently recommended to obtain a copy of Topham's "Company Law."

When shares in a limited company are originally offered to the public, the invitation is conveyed to them through the medium of a "prospectus;" and when a person applies for shares his application must be accompanied by a stated proportion of the amount of the shares. If any shares be allotted to him, a further payment is demanded, and the balance becomes payable according to the terms of the prospectus. As soon as shares have been allotted to him, he becomes a member of the company. The balance may be arranged to be called up at certain stated times, or some portion may be left "uncalled" for an indefinite time; but the member will be liable to the extent of the uncalled balance of his shares, and no further.

*Example of the Principle of Unlimited and of  
Limited Liability.*

Suppose that seven persons jointly entered into an undertaking of business as partners, each contributing £1000 to the capital of the firm, and that the business was carried on so unsuccessfully that the assets (cash, stock, debts owing to them, property in machinery, fittings, premises, etc.), if realized, would not provide a sum sufficient for the payment of their debts or liabilities. They are said to be insolvent and may be adjudged bankrupt. Suppose that, after selling all the property of the firm, there was required another £2800 to enable a payment in full to be made to the creditors. The partners may be called upon to pay, each out of his separate estate, the sum of £400; and if three of them

have no property other than that invested in the business, the remaining four must make good the deficiency, each being required to contribute £700 instead of £400 ; or, in the event of six of the partners having no means out of which to contribute, the sole remaining one must pay the entire £2800. This is the principle of unlimited liability and applies to membership of unlimited joint stock companies, as well as of firms.

But, now, suppose these seven persons had registered the undertaking as a limited liability company, with a capital of £7000, divided, say, into 7000 shares of £1 each, fully paid, each taking 1000 shares in exchange for £1000 deposited in the business. When the undertaking proved a failure, the company might be "wound up," which is the equivalent to bankruptcy, but a company cannot technically be adjudged bankrupt. The assets of the company would be sold, and the creditors paid proportionately out of the money thus produced ; but the seven members of the company cannot be compelled to contribute towards any balance of indebtedness. This is the principle of "limited liability." This example will serve to illustrate the difference between membership of a firm and membership of a joint stock company. None of the seven members of the firm could sell his share in the concern without the consent of all the partners, but any of the seven members of the limited liability company could sell the whole, or any number of the 1000 shares he possessed without reference to his co-shareholders. The method of registering the names of members, and of transferring their shares to other persons, will be explained in another chapter ; it will be sufficient, here, to state that every share has a distinctive number, so that the shares of A. may have been numbered from 1 up to 1000, of B. from 1001 to 2000, of C. from 2001 to 3000, of D. from 3001 to 4000, of

E. from 4001\* to 5000, of F. from 5001 to 6000, and of G. from 6001 to 7000. The documents issued by the company, proving the title of the several members to their shares, were not 7000 in number, but only seven; these seven documents being "share certificates," one of them certifying that A. was the proprietor of 1000 shares of £1 each, fully paid, numbered from 1 to 1000 inclusive, and so on. If A. sells 200 of his shares, he must specify which 200 he has sold, whether those numbered 1 to 200, or 801 to 1000, or otherwise. The secretary of the company will take from A. his original certificate for 1000 shares, and issue two others in its place. If the shares sold were those numbered from 801 to 1000, the new certificate issued to A. will be for 800 shares of £1 each, fully paid, numbered from 1 to 800 inclusive; and the other certificate, in the name of the purchaser will be for 200 shares of £1 each, fully paid, numbered 801 to 1000 inclusive. Every individual share, therefore, preserves its identity, and must be stated in every transfer, and where the shares are not fully paid up, the new holder will become liable for any un-paid portion. *Shares may or may not be fully paid up.*

Where there is but one class of share issued by a company, it is merely designated a "share;" but some companies issue several distinct classes of shares, in which case they must be separately designated. It is a common practice to issue two classes of shares, one called "preference," and the other "ordinary" shares. The preference shares (a) entitle the holders to a stated rate of interest,

(a) Shares may be preferred as to dividend only, or as to dividend and capital. In either case, the holders receive their dividend before any payment is made to the holders of ordinary shares; in the latter case, in the event of the Company being wound up, and there being a surplus after payment of all its debts, that surplus must be devoted to re-payment to the preference shareholders before the ordinary shareholders can participate in it.

which has to be paid to them out of the profit, before the ordinary shareholders receive any, and it is necessary, therefore, to stipulate what rate of interest shall be paid to the preference shareholders; hence, we read of 5 per cent. preference shares, or 6 per cent. preference shares.

The profits made by the company in the conduct of its business, are sometimes partly kept in reserve, and partly distributed among the members in proportion to the number of shares they hold. This distributed profit is called a "dividend," and a special order upon the company's bankers, very much like a cheque in form, is sent to each member whose name is registered in the books of the company.

Since the dividend upon preference shares must be paid before that upon ordinary shares, it follows that preference shareholders are more certain to receive a dividend, and this increases their security. But there is a limit imposed upon the dividend they may receive, whilst there is no limit in the case of ordinary shareholders. Ordinary shares, therefore, are not so secure, but may entitle their holders to very large dividends.

EXAMPLES.—The capital of a company is £400,000, divided into 200,000 five per cent. preference shares of £1 each, and 200,000 ordinary shares of £1 each, all of which have been fully paid up. Its net profit for the year 1906 was £27,000, out of which £2,000 was placed to the Reserve fund, leaving £25,000 to be distributed among the shareholders. A dividend of 5 per cent. (the fixed rate) to preference shareholders will absorb £10,000, and the balance of £15,000 will be divided among the ordinary shareholders, each receiving  $7\frac{1}{2}$  per cent. on the amount of his shares. The large profits have been greatly to the advantage of the ordinary shareholders.

But, now, suppose the profits had allowed of a distribution of £15,000 only. The preference shareholders would still be paid 5 per cent. on their shares, thus absorbing £10,000, and leaving only £5,000

for the ordinary shareholders, who would receive a dividend at the rate of only  $2\frac{1}{2}$  per cent.

The greater security of the preference shares appeals to investors who want to insure a safe income; while the possibility of big dividends, although accompanied by greater risk, invites the attention of a more speculative class.

Many preference shares are "cumulative," *ie.*, if the profits made during one year are not sufficient to pay even the preference dividend in full, the unpaid balance is carried forward to the following year, when, if the profits are large enough, this balance as well as the dividend for the current year, must be paid on preference shares, before the ordinary shares become entitled to any payment.

The division of stocks and shares into different classes does not end with ordinary and preference; it is, in fact, almost interminable. Some "ordinary" stocks are subdivided into "preferred ordinary" and "deferred ordinary." One class of stock or shares may be entitled to a stated portion of the profits, and then to participate with the other class of shares in the remainder, generally at a much lower rate than the latter.

*Debentures* are not in the nature of shares, but bonds for loans. The debenture holder is not a member of the company, but one who has lent money to it, taking as his security the company's bond, which is an undertaking to repay the amount at a stated date, and in the meantime pay interest upon it at a fixed rate. Debenture bondholders have a first claim on the assets of a company, having priority not only of the shareholders, but also of the creditors of the company. As ordinary shares, preference shares, and debentures are, not infrequently, issued

by the same company, the reasons for the issue of so many different kinds of securities may be considered.

Suppose, then, a company is to be formed to carry on a business which will necessitate the employment of a capital of £500,000, and that the profits to be derived may be estimated at any figure between £30,000 and £50,000 annually, after due allowance for reserves, etc. The lower figure would be sufficient to pay 6 per cent. on the total sum required of £500,000, and the higher figure would enable the payment of a dividend of 10 per cent. The directors or promoters would know that a probable 6 per cent. to 10 per cent. dividend would appeal only to a moderate class of investor; the very careful class would be content with 5 per cent., or even a little less, if it were certain; and the speculative class would look for a chance of earning more than 10 per cent. To be successful in their appeal to the public to subscribe for shares, this appeal must be made to all classes of investors, and this can only be accomplished by the issue of various classes of shares. To the very careful people will be offered £150,000 in debenture-bonds carrying interest at 4 per cent. per annum, and repayable in twenty years or less, and giving, as security, a first charge on all the assets of the company; being of the nature of a mortgage. To the investor who wants 5 per cent. interest, with good security, but not so good as a debenture bond, will be offered £150,000 in preference shares, which have priority over the ordinary shares, and on which interest is perfectly secure while the profits keep above £13,500 (4 per cent. on debentures of £150,000 will consume £6000, and 5 per cent. on £150,000 preference shares will absorb £7,500—together, £13,500). And, to the speculative class of investors will be offered £200,000 in ordinary shares, probably with a statement something like the following:—

Estimated <i>minimum</i> profit, annually . . . .	£30,000
<i>Less—</i>	
Interest of 4 per cent. on £150,000 debentures	£6,000
Dividend of 5 per cent. on £150,000 pref. shares	7,500
	<u>13,500</u>
Leaving, for dividend on ordinary shares . . . .	<u>£16,500</u>

The minimum estimated profit would allow of a dividend of 8 per cent., while the anticipated profits of £50,000 would permit of a dividend of 18 per cent. on the ordinary shares.

### *Stock.*

The capital of many of the leading public companies, such as railway, canal, gas, and water companies, is not represented by shares, but by stock. The public debt of Great Britain and the debts of the various county and municipal authorities, as well as the inscribed stock of colonial governments, is generally also represented by stock. A stock-holder, like a share-holder, is the holder of a certain portion of the capital of a company, or the holder of security for a particular loan to a government or authority. Where the total sum of a loan, or of capital, is divisible for the purpose of transfer into sums of money, not denoted as shares bearing distinctive numbers, but merely by the nominal value of the part transferred, it is called stock. Stock is not numbered, shares are: stock must be fully paid, shares may be only partly paid. Stock is divisible into very small parts, providing the articles of association of the company do not restrict the extent, and consols may be bought for almost any amount which does not involve the fraction of a penny.

The holder of stock has his name registered as a stockholder in the books of a company in a similar manner to

that of a shareholder, excepting that there is no distinctive number employed. Two share certificates for £100 differ from each other in the numbers of the shares to which they relate, but no such difference exists between two stock certificates.

### *Bonds.*

When a foreign government borrows money it usually issues bonds as security for the loan. These bonds are promises to pay back the sum at a future date, and, in the meantime, to pay interest at a fixed rate at stated periods, generally half-yearly. Bonds are sometimes issued by colonial governments, some American railroad companies, and others. They are, generally, payable to bearer, and may be transferred merely by handing them to the purchaser. Being made payable to bearer, it is impossible to register the names of the holders, which are unknown to the authority issuing the bonds. This makes the transfer a very simple operation, but the possession of them is attended by a risk which does not attach to stocks and shares. They belong to a small class of securities or instruments which are termed "negotiable," meaning that a holder of them, if he gave value for them and took them in good faith, is the legal holder, not being subject to any defect of title which any previous holder may have had. If they be stolen and the thief discovered with them in his possession, the person from whom they were stolen may demand them back; but, if the thief has sold them to an innocent party, they are irrecoverable.

As the holder's name and address is not registered, the government or company cannot forward to him the sum due as interest, and the payment of interest is arranged by either of the following methods. It may be declared on the face of the bond, or by advertisement, or both, that



interest will be paid upon stated dates at a given bank, and the production of the bond will entitle the holder to payment of the interest ; in which case the banker may require to hold the bond for a few days. Or the bond may have a number of small coupons attached to it, each one being an order on the banker to pay the interest on the date named upon it ; the coupons being printed on the same document as the bond, but perforated so as to be easily detachable.

These bonds are redeemable at a future date, perhaps ten years hence, and the issuing authority may promise to set aside annually a certain sum for their redemption. Instead of providing a "sinking fund" by keeping the annual redemption contributions until all the bonds become payable, foreign governments sometimes offer to use this redemption money in the payment or redemption of a given number of the bonds each year.

The question of which bonds shall be redeemed is settled by ballot, every bond being numbered, and the numbers drawn in the ballot are advertised in some one or more of the daily newspapers. It may appear, at first sight, that no benefit is conferred upon the holder of a bond by reason of its becoming a "drawn bond ;" but it should be stated that bonds are frequently issued "below par"—sold for a sum smaller than that mentioned upon them—and are redeemable "at par." Where bonds of £100 are issued at 90, the purchaser pays £90 for a £100 bond, and as it is to be redeemed at par, he will get £100 for it when its number is drawn in the ballot. "Drawn bonds" cease to bear interest from the date of drawing.

## CHAPTER II.

### METHOD OF TRANSFER OF SHARES AND STOCK.

STOCKS, shares, and bonds, may be bought and sold, not only at the time of issue, but at a subsequent period; the holder may sell to another person, and transfer his property in the stock, etc., to that other person. It has already been seen that the transfer of bonds to bearer consists simply in handing or delivering the documents to the purchaser, this class of document being known as "securities transferable by delivery." The same process applies to certain "share warrants to bearer," and, indeed, to all "bearer securities" where the certificate does not contain the name or address of the holder. When the name of the holder appears upon the certificate, it is also entered in the "register of members" of the company, etc., and the person whose name appears therein has a legal title to the shares or stock. To effect a transfer to another person, a "deed of transfer" must be drawn up, and together with the original certificate handed to the secretary, registrar, or other officer of the company, when an entry will be made first in the register of transfers, and then in the register of members, and a new certificate issued to the new member. The purchaser acquires a legal title to the shares at the moment his name is entered

in the company's register, and the importance of this fact will appear shortly.

It has been seen that a holder of shares may sell part of his holding; he may possess 100 shares, of which he may sell 50. In this case he may execute a deed of transfer to the purchaser of the 50 shares, but obviously cannot hand him the certificate for the 100 shares. He may, however, take this certificate to the company, lodge it with them, and get them to mark his deed of transfer "certificate lodged for transfer." Upon handing the deed so certified to the purchaser, the latter will be content to pay the sum agreed upon, and himself lodge the transfer deed with the company as being their authority to enter his name in their books as the holder of 50 shares. In due time he will receive a new certificate for 50 shares, and the seller one for the remaining 50 shares. When he paid the price and received the transfer deed, he acquired a title to the shares, but not a perfect title, only what is known as an equitable title, and one which may be defeated. Suppose that A., the holder of 100 shares, fraudulently sold 50 shares each to B. and C., and then to D., and made out deeds of transfer to them, lodging the certificate with the company; B., C., and D. would all have an equitable title to 50 shares, and as there were not 150 shares in the name of the seller, the title of one of them cannot be legal. The two to whom the transfers were first made, B. and C., have a prior equitable title to that of D.; but if D. lodged his transfer deed and got his name entered upon the members' register before the others, he acquires a legal title, and that of B. or C. is defeated. This method of transfer is applicable to all "securities transferable by deed," and is the most usual of all forms of transfer, affecting the majority of the securities dealt with on the Stock Exchange. In the chapter on "How

business is conducted on the Stock Exchange," the certificate, the deed of transfer, the register of members, and the register of transfers are all illustrated.

There remains for consideration one other method of transfer, which is adopted by the Bank of England in respect of all stocks administered by it, including British Government stocks of all kinds, India stocks, East India railway stocks, some Colonial inscribed stocks, many municipal and county stocks, and some foreign loans. The signing of a transfer deed or ticket is not sufficient, and the holder must attend personally at the bank and be introduced there by a banker or stock-broker known to the bank. The purchaser's broker procured a form of transfer ticket from the bank on which he inserts the name and address of his client (the buyer), the amount of stock bought, and the price he is paying for it. This is sent to the holder, or seller, who must then attend at the bank, and sign the ticket, he being identified to the bank by his broker or banker. The transfer is, thereupon, made in the register of the stock, and a stock receipt is given to the seller for transmission to the buyer. The Bank of England attaches great importance to the identification, by broker or banker, of the seller, and when the person transferring stock has been proved to have fraudulently transferred it by personating the real holder, the bank has restored the amount to the legal holder by making a purchase of stock to that amount, and then claimed the sum from the broker who wrongly identified the seller. The courts have upheld the bank and ordered the broker to pay. Stockbrokers, therefore, in identifying their customers, are held to guarantee that the person whom they identify is really the holder of the stock. It is not possible for the holder, at all times, to attend personally at the bank, by reason of being away at some distance, or

being too ill to attend, and the bank will, in such cases, permit of the transfer being made by attorney (or agent). The broker acting for the seller may obtain a form at the bank upon which is filled the name and address of the holder of the stock, the name and address of his broker who is to act as his attorney, and the description and amount of the stock to be sold. When signed by the person acting as attorney, it is lodged with the bank. The bank now advises the stockholder, by post, that an application has been lodged with it for power of attorney to transfer stock held in his name, and that, in the absence of any reply from him, the power will be issued. Next, a form of power of attorney to transfer is issued to the applicant who has to secure the signature of the stockholder to it, whereupon the transfer is effected by the attorney in the same manner as if the stockholder appeared in person. The broker here practically identifies the signature of the stockholder, and is liable for the wrongful transference of stock.

In the celebrated case of *Oliver v. Bank of England*, the plaintiff and another person of the same name were trustees and registered joint holders of certain stock (consols), and the one Oliver wished to sell this stock for his own benefit. He forged the signature of his namesake to a power of attorney, and the stockbroker identified the personal applicant and represented himself as the agent of the absent one. The stock was transferred, and when the defrauded Oliver discovered this, he entered an action against the Bank of England to restore that amount of consols to his name. The letter of the bank, advising the absent Oliver that a power of attorney had been applied for, was doubtless intercepted.

Referring to this case under the section on "Agency," Stevens, in his "Mercantile Law," says—

"Thus, in *Oliver v. Bank of England*, a broker innocently acting under a forged power of attorney for the transfer of consols, required the Bank of England in performance of their statutory duty to transfer the consols in their books. Upon discovery of the forgery, the true owner of the consols compelled the bank to make good the loss, *and the bank was held entitled to indemnity from the broker*" (1 Ch. 610; 7 Com. Cas. 89).

A later case of a similar kind was tried in 1907, and resulted in the broker being compelled to make good the loss to the bank.

Registered securities, whether stocks or shares, are registered in the books of the company, in which the proprietors' or holders' names and addresses are recorded; and when the profits are divided, the share of profits belonging to each proprietor is sent to him in the form of a "Dividend Warrant," a document very like a cheque but with a space at the foot of it for the signature of the payee. The sale of shares is a daily occurrence, and it is necessary to close the transfer books of the company during the period these dividend warrants are being made out, the company advertising the fact for the benefit alike of transferrors and transferees. Shares are generally bought for the account, and before the settling-day arrives the books of the company may be closed to transfers, the effect being that the dividend warrant will be sent to the person already on their register. A purchaser of shares, at a time when a dividend is shortly expected, may purchase the share only and not the dividend, or may buy both share and dividend. He buys "Ex div" or "Cum div," without dividend or with dividend, and if there is a chance of the distribution of a bonus in addition to the dividend, he buys "Ex bonus" or "Cum bonus;" or should the company contemplate a further issue of shares to existing shareholders on

favourable terms, he buys "Ex New" or "Cum New," "Ex rights" or "Cum rights." "Ex all" means that the buyer is to receive the shares only, and that any bonus or other rights is retained by the seller.

Where the purchaser buys Cum div., and the books are closed for a period covering the settlement, his broker will deduct from the agreed price the amount of dividend which will be sent by the company to the seller.

Deeds of transfer require to be stamped. This is for the purpose of providing a revenue to the State, and the stamp duty is based upon the consideration money, or where that is merely a nominal sum the duty is fixed at ten shillings.

Where the consideration or purchase price is

	s.	d.
not above £5 the stamp duty is	0	6
above £5 and not above £10	1	0
" £10 " " £15	1	6
" £15 " " £20	2	0
" £20 " " £25	2	6
(So far each £5 has required a stamp duty of 6d.)		
above £25 and not above £50 the stamp duty is	5	0
" £50 " " £75	7	6
" £75 " " £100	10	0
(And so on, each £25 requiring a stamp duty of 2/6 up to £300.)		

After £300, each £50 requires a duty of 5/-.

Blank transfers are often used where a person borrows money on the deposit of securities. This transfer enables the lender to complete the deed by inserting his own name as transferee and getting it registered in the books of the company if the loan be not repaid. If, however, the lender sold the securities and inserted the name of his buyer in the original deed, the Inland Revenue would have been deprived of a duty. The transfer was from the borrower

to the lender and should bear one stamp duty. The transfer from the lender to his buyer was another transaction and should bear another stamp duty. These remarks relate to transfer deeds which are complete in all other respects excepting that the name of the transferee is not inserted.



## CHAPTER III.

### MEMBERSHIP OF THE STOCK EXCHANGE.

THE amount expended for the site and building, etc., of the Stock Exchange is represented by a capital of £240,000, divided into shares of £12 each, and debentures for £450,000. The shareholders elect, from among themselves, nine managers to control the building, its lighting, heating, cleaning, etc., and appoint officers (other than those specially appointed by the committee). These managers receive the subscriptions of the members, and pay out all expenses relating to the upkeep of the building, as well as the dividends to the shareholders. Not every member of the Stock Exchange is a shareholder, but the recent alteration in the rules compels all new members to become shareholders, so that they, who conduct business in the "House" shall be part owners of the building.

The control of the conduct of business in the house, the admission of new members, the expulsion of members, the permission to deal in new shares or securities, the appointment of a secretary and official assignees, are vested in the committee for general purposes. This committee consists of thirty members of the Stock Exchange, and is elected annually in March, all its members being eligible for re-election. Its duties are onerous, and

its membership is a mark of distinction which is much coveted.

The members of the Stock Exchange are divided into two very distinct classes; brokers and jobbers. A broker buys and sells securities of all kinds for the public, and is, legally, the agent of his client. He may not, therefore, buy or sell on his own account with a client, but merely act as agent in the purchase or sale of stock, shares, etc., from the jobbers. A jobber is a dealer in these securities, buying and selling them on his own account, and, since it would be impossible for him to be sufficiently conversant with all classes of securities to deal profitably in them, he usually selects one distinct class to which to pay his undivided attention.

For the greater convenience of jobbers and brokers alike, the jobbers who deal in a particular class of security, congregate in a given quarter in the house; and this has given rise to a division of the house into "markets." Not that these markets are partitioned off from one another, but that custom has assigned certain parts of the house to the dealing of certain classes of securities. There is a "consols" market, a South African share market called the "Kaffir market," a West Australian share market called the "Westralian" or "Kangaroo" market, and others devoted to transactions in home rails, Americans, West Africans ("jungle"), and so on.

The jobber's profit is derived from the difference between the prices at which he buys and sells shares. The broker's profit is the commission which he charges to his client for buying or selling. This division of members into jobbers and brokers is, we believe, peculiar to the London Stock Exchange, and is sometimes considered disadvantageous, but it would seem that any disadvantage in the arrangement is not to the detriment of the public.

A broker must do his best for his client, and is supposed to know many matters concerning stocks and shares which the client does not know. If he sells the client certain shares which he holds, or buys from the client shares which he wishes to hold, he will do his best for himself in the deal and not study the interests of his client; but if he must buy from, or sell to, a jobber, then he can act in the interests of his client. Any partnership between a broker and a jobber would clearly defeat the object of this division into classes, and the rules of the Stock Exchange do not permit it.

Membership may be obtained in two ways, either by the nomination of a retiring member or the personal representative of a recently deceased member, or by the recommendation without such nomination of a person who has completed four years' service in the Stock Exchange or settling room. The committee elect the members after nomination or recommendation, and keep a "waiting list" containing the names of the clerks who have been recommended. Every candidate for admission must be recommended by three members of at least four years' standing, each of whom must guarantee his solvency for four years to the extent of £500; but an exception is made in favour of clerks referred to, whose term of service is taken into account, and who require only two guarantors of £300 each. The members who are content to become guarantors must have personal knowledge of the candidate they recommend, and be prepared to answer questions put by the committee as to their stability. "Has the applicant ever been made a bankrupt, or compounded with his creditors? Would you, in the ordinary way of business, take his cheque for £3000? Do you consider he may be safely dealt with in securities for the account?" This is the class of question addressed to the recommenders.

The candidate must fill up the prescribed form addressed to the committee, and await their consideration and balloting.

Foreign subjects who have not been naturalized for a period of two years, or have not been resident in this country seven years, as well as all persons who are engaged in other business than that of the Stock Exchange, or who have been bankrupt, or have compounded with their creditors and paid less than 20s. in the £: all these are ineligible for membership.

Since 1904, all new members must acquire a share or shares in the Stock Exchange—one share where only two sureties or guarantors are necessary, and three shares where three sureties are needed.

Defaulters may, under special circumstances, and after investigation by the committee, be re-admitted.

Partnership between members is permitted, but only after notice has been sent to the committee and they have assented, and all notices of partnership must be posted up in the house. A broker may not enter into partnership with a dealer or jobber, and a member may not be a partner of a non-member. Where a member wishes to enter into partnership with another member, one of whom is surety for the other, he must find another surety. Certain limited partnerships are allowed, where the joint liability extends only to dealings in a particular market, and not to dealings generally.

Members may get permission from the committee for certain of their clerks to have access to the Stock Exchange. These clerks may be required to assist the member either in the house or in the settling room; and, after two years of such service, they become eligible for admission as "authorized" clerks, that is, clerks who are authorized to transact business (buy or sell) for their

principals. All clerks may be required to wear a special badge in the lapel of their coats when entering the Stock Exchange.

Members may not appeal to a court of law to settle any disputes between themselves arising out of dealings on the Stock Exchange.

The public are not recognized as principals by the committee, who regard jobber and broker alike as principals. Legally, the broker is only an agent of his client, but the Stock Exchange usage makes him a principal in the eyes of the committee. A broker may take action at law against a client, and a client against a broker or jobber; and the committee may upon a request from a client to consider a complaint, adjudicate upon the matter if the client signs an undertaking to accept their decision as if it were a judgment of the High Courts; in other words, if he agrees to be bound equally with the member by their decision.

## CHAPTER IV.

### COURSE OF BUSINESS ON THE STOCK EXCHANGE.

THE method of conducting a purchase and sale of stock or shares may be best explained by an example.

Let us suppose that James Johnson, butcher, of 13, Weston Street York, has instructed his brokers, Barnet & Co., to buy for him 100 shares in the X. Y. Z. Manufacturing Company, Limited, the shares being fully paid and of the nominal value of £1 each. The sum required by Barnet & Co. before they undertake the commission to buy is a matter depending upon circumstances, and particularly the confidence in which they hold their client. On May 21st, Barnet & Co.'s representative entered the Stock Exchange, made his way to that part of the "House" in which jobbers congregate whose dealings are in industrial shares, and asked one of them to make him a price for X. Y. Z.'s. The jobber, W. Adams, did not know whether Barnet & Co. wished to buy or sell this class of share, and quoted two prices, viz— $2\frac{1}{2}$   $2\frac{1}{4}$ ; thereby undertaking to sell at  $2\frac{1}{4}$ , or £2 15s. *od.* per share, or buy at  $2\frac{1}{2}$ , or £2 10s. *od.* whichever was demanded. It must be understood that the brokers were acting as agents for James Johnson, and were, therefore, compelled to do their best for him; and on no account must they let the jobber know whether they wish to purchase or sell. If the jobber

knew he had a buyer, he might name high prices, or, if he was sure he had a seller, he would be able to quote low prices; the absence of information on this point leads him to quote a fair price, as, having once given a quotation, he must buy or sell at the option of the brokers.

Barnet & Co. accepted the price, as buyers, and the transaction was, in respect of 100 shares, entered by them in their jobbing book, and by the jobber, W. Adams, in his jobbing book. Barnet & Co. sent by post to their client, Johnson, a bought contract note, as illustrated. The next settling day after May 21st, was May 30th, and the contract was, therefore, on the part of W. Adams to deliver or cause to be delivered, to Barnet & Co., 100 shares in the X. Y. Z. Co. Ltd.; and on the part of Barnet & Co., to pay to W. Adams or other person delivering to them the shares, the sum of £275, being 100 shares at £2 15s. 0d. each, on May 30th. W. Adams did not undertake to personally deliver the shares, and his obligation would be fulfilled if he found another jobber or broker to deliver them. As a matter of fact, although he held some X. Y. Z. shares as part of his Stock, he had no intention of parting with his holding, but was induced to sell at 2½ in the hope that, before settling day, he would be able to acquire the 100 shares at a lower price, and thus make a profit. On the morning of May 22nd, the clerks of Barnet & Co. and W. Adams met, and having copied the entries of the transaction in their respective checking books, checked them with each other to ensure their accuracy. The X. Y. Z. shares rose in price, and W. Adams, fearing that any delay might result in a loss, bought 100 shares of J. Clements, another jobber, at the same price, 2½. The transaction between the two jobbers was conducted quite openly, Adams telling Clements that he wanted to buy. They were dealing each for himself

and not for a client, so that no one was injured by the open announcement of an intention to buy or to sell. A few days later, the price of the shares fell, and Clements was able to purchase them from another jobber, R. Drake, at  $2\frac{5}{8}$ , who, in his turn, bought them from still another jobber, T. Ellis, at  $2\frac{1}{2}$ . Finally, T. Ellis was approached by B. Ford, a broker, who had been entrusted by F. Gates, a baker, of 15, High Street, Swansea, to sell for him 100 shares in the X. Y. Z Co., Ltd.; Ellis agreeing to purchase them at  $2\frac{1}{2}$ , or £2 5s. 0d., per share.

If, therefore, Ford paid to his client £225 for the shares and passed them on to Ellis for £225, who passed them on to Drake on his payment of £250, who handed them to Clements for £262 10s. 0d., who transferred them to Adams for £275, who gave them over to his client against his payment of £275, this would settle the financial part of the arrangement. Ellis would have made a profit of £2, Drake of £12 10s. 0d., and Clements of £12 10s. 0d.; the total profit of £50 being represented by the difference between the sum the seller received (£225) and that paid by the purchaser (£275). It is not, of course, suggested that such profits are a fair sample of stock exchange transactions, or stock-jobbers would soon get rich.

As all settlements have to be made on settling day, such a cumbersome procedure as outlined would be impossible to practice. The end is gained if Ford passes the shares to Adams for £275, and the intermediate jobbers, together with buying broker and selling broker, settle the difference in prices among themselves.

On May 29th, the day before settling day, and called "ticket-day," or "name-day," the broker who bought the shares, and is referred to as the ultimate buyer, wrote out a ticket in the form illustrated and handed it to the jobber from whom he purchased them, W. Adams. This ticket



was a demand to produce the shares on the morrow and a promise to pay £275 for them; and as it was the first occasion upon which Adams knew the name of the client to whom the shares were to be transferred, this day is sometimes called name-day. Adams endorsed the ticket and passed it on to his seller, Clements, who likewise endorsed it and passed it on to Drake, who also endorsed it and handed it to Ellis; and, in turn, Ellis endorsed it and passed it to B. Ford. On settling day, Ford, then knowing to whom the shares were to be transferred, prepared a deed of transfer to which he secured the signature of his client, F. Gates, of Swansea; and this transfer deed, together with the share certificate, was handed to Barnet & Co. on settling day in exchange for their cheque for £275.

The settlement of difference by the members of the Stock Exchange was effected by Ford giving a cheque to Ellis for £50, Ellis paying Drake £25, and Drake paying Clements £12 10s. *od.*; resulting in a net profit of £25 to Ellis, £12 10s. *od.* to Drake, and £12 10s. *od.* to Clements.

The broker's profit is not derived from any difference between buying and selling prices, as they merely acted for clients, and received from them a commission or brokerage of say, 3*d.* per share, or £1 5s. *od.*, for their services.<sup>(a)</sup>

Barnet & Co. then got their client, James Johnson, to also sign the transfer deed, afterwards depositing both the deed and the share certificate with the X. Y. Z. Co., Ltd.

In due course, this company entered the transfer in their register of transfers, and in their register of members, and made out a new certificate for 100 shares in the name

(a) The rate of commission is not fixed by any rule of the Stock Exchange, but for large dealings in stock it is generally  $\frac{1}{2}$  per cent., or 2s. 6*d.* per £100.

of James Johnson ; and thus the transfer was completed. The student is requested to compare the documents illustrating this transaction throughout, including the transfer deed.

This method of settling differences has been a stumbling-block to many students, and the writer has found the following the most satisfactory way in which to present it to them.

The ticket is Barnet and Co.'s promise to pay £275 upon production of transfer deed and certificate. Regard it, for the moment, as a cheque for £275 drawn by Barnet & Co. This they give to Adams, Adams handed it to Clements, Clements passed it on to Drake ; but as he only owed Drake £262 10s. 0d., he asked for £12 10s. 0d. change, and so on. Viewed in this light, the difference due to or from each member is made clear.

The members of the Stock Exchange do not need to pass cheques for each difference, because they may have very many transactions with each other during the period of an account (a fortnight), and it is a simple matter to prepare a statement of the various differences, debtor and creditor, and strike a balance showing the net account to be received or paid. The settlement of all such accounts must be made on settling-day ; and if by cheque, which is usual, it must be drawn on a clearing banker, so that each member's banking account will be debited with his payments and credited with his receipts at the same time. The system by which cheques are cleared is explained in the chapter on "Cheques," and the total clearing on the days set apart for Stock Exchange settlements is largely in excess of that of ordinary days.

The rules of the Stock Exchange include several which are devoted to breach of contract by a failure to pass a ticket in due course. It is obvious that the ticket must be

passed to the first jobber early in the day or it cannot reach the ultimate seller on that date; indeed it should be in his hands fairly early to enable the statements of differences to be compiled and cheques prepared for the morrow (settling-day). In the case of ordinary shares or stock transferable by deed, the latest time for the first issue of the ticket is 12.0 noon, and if the buyer does not issue it before that time he may be liable for any loss resulting from the delay. Each intermediary must pass it along so that it arrives in the hands of the ultimate seller before 2.30 p.m., failing which the holder at 2 o'clock will be liable for any loss; but the holder at 2 p.m., will incur no liability if the ultimate seller get it by 2.30 p.m., and so will hurry it forward.

If the ultimate seller in the case illustrated, B. Ford, had not received the ticket at 2.30 p.m., he would not know to whom he was to look for payment, and would therefore sell the shares again for cash, and charge any loss arising from a falling price to the offender. He would not, however, make this sale occasionally, but would take the securities, etc., to the buying-in and selling-out department, to be sold, and this department would pay B. Ford the sum he agreed to sell at, and recover any loss from the member who made a breach of the rules. It is easy to discover the offending member, because where a ticket is handed to a member after one o'clock, he causes a line to be drawn with the hour stated upon it denoting that he did not receive it until that time; another line being drawn at 1.30 p.m., and still another at 2.0, and finally one at 2.30 p.m.

Tickets relating to *Mining Shares* must be issued before 2 o'clock on the day previous to ticket-day, and must reach the ultimate seller before 6 p.m.

The rules as to time for issuing and passing the tickets,

and selling-out and buying-in, vary with the class of security dealt in, and are reproduced here :—

**RULE 104.**—The buyer, who takes up securities deliverable by deed of transfer, shall, before twelve o'clock on the ticket-day, or in the case of securities dealt in in the mining markets before two o'clock on the preceding day, issue a ticket, with his name as payer of the purchase-money, which ticket shall contain the amount and denomination of the security to be transferred; the name, address, and description of the transferee in full; the price, the date, and the name of the member to whom the ticket is issued. Each intermediate seller, in succession, to whom such ticket shall be passed, shall endorse thereon the name of his seller.

All tickets representing securities which, at the time, are subject to arrangement by the settlement department, shall be passed through the accounts at the making-up price of the contango-day, and the securities paid for at that price; but the consideration money in the deed must be at the price on the ticket. (a)

The passing of tickets shall commence at ten o'clock.

Tickets may be left at the office of the seller up to twelve o'clock on ticket-days, and for securities dealt in in the mining markets up to two o'clock on the general contango-day. After these hours all tickets must be passed in the settling room.

Tickets may be placed in the boxes in the settling room up to eleven o'clock on the account-day, and also up to eleven o'clock on the day after account-day.

Tickets may be issued and passed on the day before the ticket-day, but the buying-in upon tickets so issued shall not be allowed until the eleventh day after the ticket-day.

A member receiving a ticket from the issuer after twelve o'clock on the ticket-day, or for securities dealt in in the mining markets after two o'clock on the general contango-day, shall note the fact on the back of the ticket; and a member receiving a ticket after three o'clock on the ticket-day, or for securities

(a) See clearing-house, p. 213.

dealt in in the mining markets after six o'clock on the general contango-day, or at any time on any subsequent day, shall mark the date and exact time at which such ticket is received.

It is also required that the holder of a ticket at—

one o'clock,  
half-past one,  
two o'clock,

and half-past two on the ticket-day,

or for securities dealt in in the mining markets at two o'clock and at every half hour up to half-past five on the general contango-day, shall endorse such times on the back of the ticket.

Members omitting to note the times thus fixed may become liable for losses occasioned by selling-out in case undue delay is proved under the provisions of Rule 133.

**RULE 131.**—The seller of inscribed stock for the consols account or for a specified day, who shall not receive a ticket by half-past one o'clock, or a quarter-past twelve o'clock on Saturdays, may sell out against the buyer.

If such ticket shall not have been regularly issued before half-past twelve o'clock, the issuer thereof shall be responsible for any loss occasioned by the selling-out. Should the ticket have been regularly put in circulation, the holder at half-past one shall be liable.

**RULE 132.**—The seller of inscribed stock dealt in for the ordinary account, who shall not receive a ticket by three o'clock on the ticket day, may sell out against the buyer on the account-day or on any subsequent day.

If a ticket shall not have been regularly issued before two o'clock on the ticket-day, the issuer thereof shall be responsible for any loss occasioned by such selling-out. Should a ticket have been regularly put into circulation, the holder at three o'clock on the ticket-day shall be liable. In case of selling-out on any subsequent day, the holder of the ticket at three o'clock on the previous day, or at one o'clock on Saturdays, shall be liable. Should, however, undue delay in passing the ticket be proved, the member causing such delay will be held responsible.

**RULE 133.**—The deliverer of securities deliverable by deed of transfer, who shall not receive a ticket by half-past two o'clock on the ticket-day, may sell out such securities up to three o'clock on that day or any subsequent day.

If the security be one of those undertaken by the settlement department, written notice stating from whom a ticket is required must be given to the department at least one hour before such selling-out, and in no case shall such securities be sold out before twelve o'clock.

If a ticket, except for securities dealt in in the mining markets, shall not have been regularly issued before twelve o'clock, the issuer thereof shall be responsible for any loss occasioned by selling-out. Should a ticket have been regularly put into circulation, the holder thereof at two o'clock shall be responsible for any selling-out on the ticket-day. If the selling-out take place on the account-day, the holder of the ticket at three o'clock on the ticket-day shall be liable, unless such ticket was in the settlement department at three o'clock, in which case the holder of such ticket at five o'clock shall be liable.

If a ticket for securities dealt in in the mining markets shall not have been regularly issued before two o'clock on the general contango-day, the issuer thereof shall be responsible for any loss occasioned by selling-out. Should a ticket have been regularly put into circulation, the holder thereof at two o'clock on the ticket-day shall be responsible for any selling-out on that day; and the holder of the ticket at six o'clock on the general contango-day shall be responsible for any selling-out on the account-day, unless the ticket was in the settlement department at six o'clock on the general contango-day, in which case the holder of the ticket at one o'clock on the ticket-day shall be liable.

In the case of selling-out on any day after the account-day, the holder of the ticket at three o'clock on the previous day, or one o'clock on Saturdays, shall be liable, unless he can prove undue delay in passing the ticket.

**RULE 134.**—Should the deliverer allow two clear days from three o'clock on the ticket-day to elapse without availing himself

of his right to sell<sup>1</sup> out, his buyer shall be relieved from all loss in cases where the ticket has not been passed in consequence of the public declaration of any member as a defaulter. If a seller does not deliver securities within thirteen clear days from the ticket-day the intermediate buyer from whom he received the ticket shall be released, and the issuer thereof shall alone remain responsible for the payment of the purchase money.

A breach may occur on the part of the ultimate seller, who may fail to produce the transfer deed or certificate, and Rules 123 to 130 provide for buying-in shares or stock to enable the ultimate purchaser to complete his contract with his client.

**RULE 123.**—Buying-in or selling-out must be effected publicly by the officials of the buying-in and selling-out department appointed by the committee for general purposes, who shall trace the transaction to the responsible party and claim the difference thereon.

**RULE 124.**—The committee may suspend the buying-in of securities when circumstances appear to them to make such suspension desirable in the general interest. The liability of intermediaries shall continue during such suspension, unless otherwise determined by the committee.

**RULE 125.**—Securities shall not be bought-in while they are known to be out of the control of the seller for the payment of calls, or the receipt of interest, dividends, or bonus.

**RULE 126.**—Inscribed stock bought for a specified day and not then delivered, may be bought-in on the following day at eleven o'clock, and the member causing the default shall pay any loss incurred.

**RULE 127.**—If securities deliverable by deed of transfer are not delivered within ten days, the issuer of the ticket may buy-in the same against the seller on the eleventh day after the ticket-day, or on any subsequent day.

In the case of companies which prepare their own transfers,  
M.M.B. P

securities may be bought-in on the eleventh day, after the earliest date on which a transfer can be procured, or on any subsequent day.

One hour's public notice of such buying-in must be posted in the Stock Exchange; the notices to be posted not later than half-past twelve o'clock, or half-past eleven o'clock on Saturdays. Buying-in shall take place between half-past one o'clock and three o'clock, and on Saturdays between a quarter-past twelve and one o'clock. The name into which the securities are to be transferred must be stated in the order to buy-in, if required by the manager of the buying-in and selling-out department.

The loss occasioned by such buying-in shall be borne by the ultimate seller, unless he can prove that there has been undue delay in the passing of the ticket on the part of any member, who shall in that case be liable.

Securities thus bought-in and not delivered by one o'clock on the following day, or by twelve o'clock on Saturdays, may be again bought-in for immediate delivery without further notice, and any loss shall be paid by the member causing such further buying-in.

In case the official shall not succeed in executing an order to buy-in, the notice of such buying-in shall remain on the general notice board, and the official may buy-in such securities, if not delivered, on any subsequent day without further notice, but not before two o'clock, or before a quarter-past twelve o'clock on Saturdays.

**RULE 128.**—The issuer of a ticket who shall allow thirteen clear days from the ticket-day, or, in the case of companies which prepare their own transfers, thirteen clear days after the earliest day a transfer can be procured, to elapse without buying-in or attempting to buy-in the securities, shall release his seller from all liability in respect of the non-delivery of the securities, unless he shall have waived his right to buy-in at the request, or with the consent of his seller; and the holder of the ticket shall alone remain responsible to such issuer for the delivery of the securities.



The liability of issuers and holders of tickets is not affected by the fact that intermediaries have been released by lapse of time.

**RULE 129.**—Securities passing by delivery bought for any day except the account-day, which shall not be delivered by half-past two o'clock, or by twelve o'clock on Saturdays, may be bought-in on the same or any subsequent day, without notice, and any loss occasioned by such buying-in shall be borne by the seller.

If bought for the account-day and not delivered by half-past two o'clock, they may be bought-in on the following, or any subsequent day. One hour's public notice of such buying-in must be posted in the Stock Exchange; the notice to be posted not later than half-past twelve o'clock, or half-past eleven o'clock on Saturdays.

Buying-in shall take place between half-past one and three o'clock, and on Saturdays between a quarter-past twelve and one o'clock.

The loss occasioned by such buying-in shall be borne by the member, who shall not have delivered the securities by half-past two o'clock on the previous day, or by one o'clock on Saturdays.

A member neglecting to take the numbers of securities delivered after time shall be required to trace out the member responsible for the loss.

Securities thus bought-in, and not delivered by one o'clock on the following day, or by twelve o'clock on Saturdays, may be again bought-in for immediate delivery without further notice, and any loss shall be paid by the member causing such further buying-in.

In case the official shall not succeed in executing an order to buy-in the notice of such buying-in shall remain on the general notice board, and the official may buy-in such securities, if not delivered, on any subsequent day without further notice, but not before two o'clock or before a quarter-past twelve o'clock on Saturdays.

**RULE 130.**—A member who shall allow two clear days to elapse without buying-in or attempting to buy-in securities passing by delivery releases his seller from any loss in consequence of the

public declaration of any member as a defaulter, unless he shall have waived such right at the request, or with the consent of, the seller.

### *The Clearing-house.*

Railway companies and bankers have each their clearing-house, the latter being fully explained in the chapter on "Cheques" in Part I. ; and the Stock Exchange has devised a method of simplifying settlements and reducing the number and amount of necessary payments, suited to its particular needs.

If a broker have, during one account, bought many parcels of a given security, and sold many others, it is clear that much labour is saved by his being merely required to take or to deliver the balance ; and if all the transactions were with the same ultimate purchaser or seller, an arrangement could easily be made between them. But this will probably not be the case, and he would not be aware of it even if it were.

The clearing-house, or "settlement department," as it is officially designated, is informed of all sales and purchases by members, of such stock or shares as that department deals with. The returns of many jobbers will show that they have to take and to deliver an equal number of many of the securities, whilst others will show a balance to take or to deliver, and brokers generally will have a balance one way or the other.

The member makes out a sheet or "list" headed with his name and the name of the stock, and showing the number of shares sold, and to whom, on the one side ; and, on the other, the number of shares bought and from whom. The balance represents the net number of shares to be delivered by him, or to be taken by him, and the clerks in the settlement department arrange who is to take or

deliver this balance. As the total shares must equal the total bought, the settlement is an easy matter.

In these lists there is no mention made of the ticket prices, which vary considerably; the department only deals with the number of shares to be delivered or taken by each member.

The ticket price will, of course, ultimately be resorted to in the settlement of differences; but, for the purpose of immediate settlement, an uniform price is arranged, called the "making-up price." This is the average price of the given security on contango-day or ticket-day, as ascertained by the settlement department about mid-day on those dates.

The clearing-house puts the ultimate buyer and ultimate seller into communication with each other without the necessity of passing a ticket, but the department does not deal with every security which is bought and sold on the Stock Exchange, and passing the ticket has still to be resorted to in many cases.

### *Splitting Tickets.*

The illustrated ticket contains a reference to the possibility of the ticket being divided or "split."

A jobber may sell 100 shares in one parcel, and buy two parcels of 50 shares each. His book is even, but when the ticket for 100 shares is delivered to him, he cannot pass it on to two other members, and is compelled to "split" it. He retains the original ticket, and makes out two others, each for 50 shares, which he passes to his sellers, inserting therein the number of the original ticket, the name of its issuer, and his own name as divider. It may be that some slight loss is incurred by this splitting, and he will be liable for that loss. The transfer stamp duty would be £1 5s. on

a consideration of £250, but if the transfers are for £205 and £45, the stamp duty would be £1 2s. 6d., and 5s. respectively, so that 2s. 6d. is lost by the splitting. Probably also the company will charge a registration fee of 2s. 6d. for each transfer, and here again would be a loss 2s. 6d. by the splitting.

*Continuation, or Carrying Over, Contango, and  
Backwardation.*

A client who has entered into a contract to buy certain shares for the account, may desire to carry over the transaction until the ensuing account. For this purpose he will approach his broker on the day before ticket-day (a day called variously contango-day, continuation-day, and carry-over-day), who will, generally, arrange with the jobber from whom he bought the shares to carry-over the transaction. Two considerations will determine the amount to be paid for this continuation. First, there is perhaps a difference between the agreed purchase-price and the "making-up price" already referred to; and, next, there is the "contango," or interest on the money from one settling-day to the next. Although the jobber agrees with his buyer to defer the settlement, his seller may not so agree with him, and he will be compelled to accept the delivery of the shares and pay for them; and, he is, therefore, entitled to interest on the money he so advances. Continuations are of very frequent occurrence, and a jobber has not always capital at his command to take in large quantities of shares, and has recourse to borrowing from his banker on their security; the banker charging a rate of interest varying with the market rate of interest, and the nature of the security offered.

Another client may have instructed his broker to sell

certain stock which he does not possess, in the hope that the price will fall before settling-day, and he will be able to secure it at a lower price than that at which he sold it. Should he wish to carry over his bargain until the next settlement, his broker may be able to arrange this upon payment of a premium or fee called "backwardation." It is conceivable that there may be a desire on the part of bulls and bears to carry over a particular stock, and whether, in such case, the bulls should pay a contango or the bears pay backwardation, would be generally settled by the ordinary laws of supply and demand. Any real demand for a particular stock coupled with a scarcity of it in the market is sure to result in the bears having to pay backwardation. The rate of backwardation, like that of contango, is affected by the market rate of interest, but in the reverse manner. When money is dear contango is high, because the bulls are asking to postpone payment at a time when the money would command good interest; but the bears are only asking to postpone delivery of securities, leaving the buyers in possession of the purchase-money, which can be let out at a large rate of interest, and thus the backwardation is low when there is stringency in the money market. The rates for contango and backwardation may, therefore, be said to depend mainly upon the supply of, and demand for, the securities, and the state of the money market. • •

Bought contract notes do not usually state the distinctive numbers of the shares bought, nor the name of the holder from whom they are purchased. As has been seen, the buying broker has no knowledge of these particulars until settling-day. •

Bank shares are on a different and distinct footing, and for this reason that a highly speculative dealing in bank shares is very undesirable. If, in consequence of very

speculative dealings, the shares of an ordinary company are subjected to considerable variations in price, the only people likely to suffer are some of the speculators ; but a sudden drop in the value of the shares in a bank due to such speculative dealings, might cause a run upon the bank and affect depositors as well as speculators. Credit, upon which our commercial transactions are based, is bound up in the security of our banks, and although bank shares should be readily saleable, they are of a nature which should not be subjected to the influence of bulls and bears. It is necessary that the bought and sold contract notes should state the distinctive numbers of the shares bought and sold, that the transaction should be for the purchase of certain shares which are in the possession of the seller, and Leman's Act provides that no contract is legal which does not contain this information.

Unfortunately this Act is frequently ignored in the usage of the Stock Exchange, and the prevalence of such a state of things has given rise to more than one action at law. In nearly every market, there are rules and usages which are specially confined to that market and not of general application.

How far the High Courts will uphold contracts formed according to such usage is not easy to determine, but, generally, it may be said that they "will recognize any universal custom of a market, if it be a reasonable one." In the case of bank shares just referred to, it can hardly be claimed that the usage is reasonable, since it is contrary to the spirit of an Act of Parliament, and the question of its validity will then rest upon whether or not the client was aware of such custom and usage. A broker owing a client for the amount due on a contract for the purchase of bank shares where the numbers of the shares were not stated on the contract note, must prove that the client was aware of

the custom of the Stock Exchange by which these shares are bought and sold without the numbers being given. It is the duty of a broker to acquaint his client with all customs and usages of the house which may be called unreasonable or not strictly legal.

There is a very salutary rule of the Stock Exchange which does not recognize dealings in future dividends. The committee recognize dealings in all classes of securities as to which a settlement has been granted, but not in the dividends of those securities.

## CHAPTER V.

### OPTIONS, BULLS, AND BEARS.

THE purchase of stock or shares for investment forms but a small portion of the business conducted on the Stock Exchange. Many people buy with the sole object of selling again before the settlement, reaping a profit or sustaining a loss, which is measured by the difference between the prices at which they bought and sold ; and it has been seen that, if the anticipated rise have not taken place before settling-day, they may arrange for a carry-over until the following settlement. They are "bulls," looking for an advance in the price of the shares. It is easy to understand that a holder of shares who believes that their value will decrease, may be induced to sell them before the fall takes place ; but it is not so easy to see how one who does not possess shares may profit by their fall. Shares are constantly sold by men who not only do not possess them, but never intend to handle them. They sell to-day at market prices, in the hope that the price will fall, and they will be able to purchase them before the settlement at a less figure than they sold them for ; the difference being their profit. Indeed, they will probably instruct their broker, first to sell, and then to buy, and pay them the difference between the two prices. They are "bears," looking for a fall in the price of the shares.



This is a species of speculation hardly discernible from pure gambling, and it is, perhaps, advisable to distinguish between a speculation and a wager. The Stock Exchange does not recognize "difference bargains," and the broker actually buys and sells the securities on the instructions of his client. If, at the settlement, there is one sum to be paid to the client and another to be paid by him, the payment of the difference is a matter of account only, and there is no wager. Where an outside broker engages to receive orders to buy and sell, and settle on differences only without delivery of the securities, the transaction is a pure gamble for a rise or fall in prices.

Some of these brokers enter into bargains on the "cover system," requiring the client to deposit a stated sum to cover probable fluctuations in price, and if the price falls lower than the cover provides for, close the account and the client simply loses the sum deposited.

**EXAMPLE.**—A person, believing that a certain company's shares will rise in price in the near future, wishes to benefit by that rise to the fullest extent, and asks a broker what amount of "cover" he needs in return for which he will hold a large number of the shares at his disposal at to-day's market price. An outside broker may need only a very small percentage of that price as a present payment, but secures himself by retaining a right to sell the shares if the market price drops to such an extent that he might sustain a loss by further holding them. Whilst they rise in price the client is not troubled, and may, at any time he thinks opportune, instruct the broker to close the account by a re-sale and pay him the profit.

Options are dealt in by outside brokers and within the Stock Exchange, and are a highly-speculative form of dealing. A client pays a certain fee, in return for which he receives an option to buy or sell given securities at a present agreed price, at any time during a period named. He may exercise his right to buy or sell, or not,

and the fee he paid is merely the consideration for this right.

A right of option to purchase stock at a future time, and at an agreed price, is a "Call Option." The person paying a fee for such option is a "bull," and believes that the price will rise, when he will call upon the broker to deliver the securities at the lower price, and probably also instruct him to sell them again at the enhanced market price.

A right of option to sell stock within a specified time, at a present agreed price, is called a "Put Option," and the person paying a fee for such right is a "bear." He thinks the price of the security will fall, and he will then require the broker to sell them for him at the higher price; probably also instructing him to purchase them at the lower price to enable him to deliver them. The broker enters into these transactions with a jobber, being himself the agent of his client.

A "Put and call Option" or "double Option" is a combination of the two, and confers the right upon the client to either purchase or sell the securities. Any considerable fluctuation in price either up or down would benefit him, but the fee charged for the double option is proportionately higher.

## CHAPTER VI

### FUNDS : ENGLISH, COLONIAL, AND FOREIGN, AND OTHER SECURITIES

FUNDS is a term applied to the public debts of various countries, and includes debts which are said to be "Funded," and others which are said to be "Unfunded."

Applied to the national debt of Great Britain, the "Funded" debt comprises all those loans raised in respect of which the Government promises to pay interest in perpetuity, but does not undertake to repay the principal ; and the "Unfunded" debt comprises all loans raised for a stated period, and as to which the Government contracts to re-pay the principal at a stated date, and pay interest on the amount during the currency of the loan. The funded debt is an interminable debt ; the unfunded a terminable debt.

Applied to the national debt of other countries, the term funded refers to loans raised upon the specific security of a certain fund. Some of the China loans are "specially secured by the hypothecation of the Imperial maritime customs revenue of the treaty ports of China ;" other loans to Egypt are "secured on the property transferred by the Khedive to the State," consisting of lands, etc. ; Turkey has borrowed on the security of the Egyptian tribute, "on the sheep tax and tithes in certain provinces," etc. ; and

because there is a fund set apart for the payment of interest and repayment of principal the term "funded" is applied to all such foreign loans. Where a foreign country borrows money without any specific security, the term "unfunded" is applied to them. Nearly all foreign loans bought in the London market are terminable.

In the early days of the national debt of this country, all loans were terminable. The Government, which had extraordinary expenses to meet, could not raise by taxation a sum sufficient for pressing needs, and borrowed money for a term of years. The demands upon them occasioned by a war could not be met by a single year's revenue, and were distributed over a number of years by the raising of a loan, and the creation of a sinking fund, consisting of a portion of the revenue of each year, sufficient to pay off the loan at maturity. The public eagerly subscribed to the loans, and, in course of time, the Government created a permanent or funded debt. Even then, however, it was intended to form a sinking fund for the ultimate redemption of the debt, as is testified by many Acts of Parliament. Nearly two hundred years ago, in 1715, the public debt amounted to about £37,000,000, the interest on which was 5 and 6 per cent.; additions made during the next forty years brought the total up to £77,000,000, but the rate of interest was gradually reduced to 4 and 3 per cent.; the war with France (1756-1763) caused a considerable augmentation of the debt, raising it to £133,000,000; the war with America resulting in its independence further raised it to £245,000,000; and then followed, after but a short period of peace, the long struggles with Napoleon, during which vast sums were borrowed, bringing up the national indebtedness to £900,000,000. The estimated population of Great Britain and Ireland, in 1815, was 20,000,000, and the average debt per head £45.

Notwithstanding several special calls made upon the Government in respect of compensation to slave-owners upon the abolition of slavery, the provision of food for the people of famine-stricken Ireland, and other matters of minor importance, during the period 1815-1850 the sum of £100,000,000 was applied to the reduction of the debt; and, although the Crimean War added £30,000,000 to it, this was but a temporary increase, successive Governments adopting methods for its reduction, until, at the close of the last century, it was but little over £600,000,000. The population was then about 40,000,000, and the debt per head £15, against £45 in 1815. The South African War has once more increased the total indebtedness, but the principle of applying part of the annual revenue during times of peace to the reduction of the debt is firmly established.

*Consols.*—The Consolidated debt of Great Britain, which forms the major portion of the country's indebtedness, was formerly called the "Three-per-cents," because interest thereon was payable half-yearly at the rate of 3 per cent. per annum. In 1889 the interest was reduced to  $2\frac{1}{2}$  per cent. until 1903, and thereafter until 1923 to  $2\frac{1}{2}$  per cent., at which date it will be optional with the Government to redeem them. Other Government securities are Annuities, Irish Land Stock, National War Loan, Local Loans Stock, and Exchequer Bonds.

*Colonial Government Securities* are, like the British Funds, generally inscribed in the books of the Bank of England, and comprise loans to almost every Colonial Government.

*Foreign Government Securities* are mostly represented by Bonds payable to bearer, and not, therefore, inscribed in any register.

*Corporation and County Stocks* of the United Kingdom

are principally inscribed in the books of the Bank of England or one of the leading Banks.

*Colonial and Foreign Corporation Stocks* frequently take the form of Bonds, or debenture bonds, payable to bearer, though some few are inscribed or registered.

*British and Irish Railway Capital* may be represented by Stock or Shares (mostly the former), and is registered in the books of the companies. Many railway companies also issue Debenture Stock, which is likewise registered.

*American Railroad Stocks and Shares* are either registered, or "Share warrants to bearer" with or without the right of registration. A few companies issue Sterling Bonds.

*British Bank Capital* is always registered, and generally not fully paid up. There is also a Reserve liability on nearly all Bank Shares.

*Commercial and Industrial Companies* issue Shares or Stock on Debenture bonds, and the holder's name is registered in the books of the company.

*Insurance Companies' Shares* are registered, and there is usually a large uncalled liability on them.

*Mining Shares* are, as a rule, registered in the books of the companies, and, where the registered office of the company is outside Great Britain, a special register is sometimes kept for British shareholders.

*East India Railways*.—The interest on some of these is guaranteed by the Government, and the stock is inscribed in the books of the Bank of England.

There is only one settlement each month for Consols, and it is called the Consols settlement; but dealings in certain other stocks of council and municipal corporations, and Indian loans are settled on that date.

Colonial and foreign stocks dealt in for the account are settled monthly, on the day set apart for foreign settlements.

Other classes of securities are settled twice a month, the period of each account being 14 or 19 days, according to circumstances.

Three days are occupied in the settlement, the first being contango-day, the second ticket-day, and the third settling-day or pay-day. The contango-day for mining shares has latterly been fixed a day earlier than the ordinary contango-day.

Stock may be bought and sold "for money" or "for the account," but dealings for money must be declared as such at the time of the bargain.

Nearly all the principal stocks have a short name on the Stock Exchange. The Consolidated Stock of Great Britain is called "Consols" for short; and the Railway Stocks have short names derived either from the name of the railway or one of the prominent towns on its system.

Westerns	=	Great Western Railway Ordinary Stock.
Easterns	=	Great Eastern Railway Ordinary Stock.
Souths, or Southern	}	= London and South-Western Railway Ordinary Stock.
British	=	North British Railway Ordinary Stock.
Caleys	=	Caledonian Railway Ordinary Stock.
Mets.	=	Metropolitan Railway Ordinary Stock.
Districts	=	Metropolitan District Railway Ordinary Stock.
Brums. (Bit- minghams)	}	= London and North-Western Railway Ordinary Stock.
Leeds	=	Lancashire and Yorkshire Railway Ordinary Stock.
Potts. (The Potteries)	}	= North Staffordshire Railway Ordinary Stock.
Berwicks	=	North-Eastern Railway Consolidated Stock.
Dovers	=	South-Eastern Railway Ordinary Stock.
Chats. (Chat- hams)	}	= { London, Chatham and Dover Railway Ordinary Stock.
Yorks	=	Great Northern Railway Ordinary Stock.
Sheffs. or Sheffields	}	= Great Central Railway Ordinary Stock.
Brightons	=	London, Brighton, and South Coast Railway Ordinary Stock.

Deferred Stocks of these Railway Companies generally take the form of a girl's name, beginning with the initial letter of the Ordinary Stock short name.

Berthas, or Brighton A.	} = { London, Brighton, and South Coast Railway Deferred Stock.
Coras	= Caledonian Railway Deferred Stock.
Doras, or Dover A.	} = South-Eastern Railway Deferred Stock.
Noras	= Great Northern Railway Deferred Stock.
Saras	= Great Central Railway Deferred Stock.

The initial letters of some, or all of the long names, form appropriate short names to a few Stocks and Shares, as—

Bags	= Buenos Ayres Great Southern Railway Stock.
Curs	= Central Uruguay or Montevideo Railway Stock.
Gips	= Great Indian Peninsular Railway Stock.
Wags	West Australia Goldfields.

Other short names are in use, and, as a rule, it is easy to connect them with the Stocks or Shares they represent.



## CHAPTER VII.

### SECURITIES WHICH MAY BE DEALT IN ON THE STOCK EXCHANGE.

A VERY onerous duty devolving upon the general purposes committee is the admission of new securities to a settlement on the Stock Exchange. This admission is of great importance to new companies, or authorities desiring a new loan. Shares or securities which are not bought and sold on the London Stock Exchange are not readily disposed of, and their price is consequently lower than if they were quoted on the official list.

Before the committee will grant a special settling-day for any new security, certain rules must be complied with; and the first settlement must be on a special day fixed by the committee, all subsequent settlements being made on the ordinary settling-day.

The rule governing the appointment of a special settling-day, for bonds of scrip of a *new loan* is as follows:—

The secretary of the share and loan department shall give three days' public notice of any application for a special settling-day in the scrip (a) or bonds of a new loan, previously to its being submitted to the committee, who will appoint a special settling-day provided

(a) Scrip is a provisional certificate issued upon payment of the first instalment of a loan, the bond being issued only after the last instalment has been paid.

that sufficient scrip or bonds are ready for delivery, and that no impediment exists to the settlement of the account.

The application should be accompanied by the prospectus, by notarial copies or translations, or other satisfactory evidence of the powers under which the loan is contracted, and by a certificate verified by the statutory declaration of the contractors or agents stating the amount allotted to the public, that the scrip or bonds are ready for delivery, and that they are in reasonable amounts.

A special settling-day having been appointed, further particulars are required by the committee before they will allow the scrip or bonds to be quoted on the official list of prices. The next rules set forth these additional requirements :—

The committee may order the quotation of the scrip or bonds of any loan, the dividends of which are payable in this country, provided that the documents specified in rule 131 have been furnished; that the loan has been publicly negotiated by tender, contract or otherwise, that the bonds specify the amount and conditions of the loan, the powers under which it has been contracted, and the numbers and denominations of the bonds issued, and that they bear the autographic signature of the contractor or properly authorized agent. Bonds will not be admitted to quotation until a specimen has been submitted to the committee.

Bonds, the dividends of which are payable abroad, may be quoted upon satisfactory proof of the amount created and issued, and of the official quotation in the country where issued.

Shares in new companies are dealt with in a somewhat different manner, as will be seen from the following rules :—

The secretary of the share and loan department shall give one week's public notice of any application for a special settling-day in the shares or other securities of a new company, previously to such application being submitted to the committee, who will

appoint a special<sup>3</sup> settling-day provided that sufficient scrip or shares are ready for delivery, and that no impediment exists to the settlement of the account.

The application should be accompanied by the following documents :—

The prospectus, the Act of Parliament, the articles of association, or a certificate that the company is constituted upon the cost-book system, under the Stannary Laws; the original applications for shares, the allotment-book, signed by the chairman and secretary to the company, and a certificate verified by the statutory declaration of the chairman and the secretary, stating the number of shares applied for and unconditionally allotted to the public, the amount of deposits paid thereon, and that such deposits are absolutely free from any lien: the bankers' pass-book, and a certificate from the bankers, stating the amount of deposits received.

The committee may order the quotation of a new company in the official list, provided that the company is of sufficient magnitude and importance; that the documents specified in Rule 135 have been duly furnished; and that the prospectus has been publicly advertised, and agrees substantially with the Act of Parliament, or the articles of association, and in the case of limited companies contains the memorandum of association; that it provides for the issue of not less than one-half of the nominal capital, and for the payment of ten per cent. upon the amount subscribed, and sets forth the arrangements for raising the capital, whether by shares fully or partly paid-up, with the amounts of each respectively, and also states the amount paid, or to be paid, in money or otherwise to concessionaries, owners of property, or others on the formation of the company, or to contractors for works to be executed, and the number of shares, if any, proposed to be conditionally allotted; that two-thirds of the whole nominal capital proposed to be issued has been applied for and unconditionally allotted to the public (shares reserved or granted in lieu of money payments to concessionaries, owners of property, or others, not being considered to form part of such public allotment), that the

articles of association restrain the directors from employing the funds of the company in the purchase of its own shares, and that a member of the Stock Exchange is authorised by the company to give full information as to the formation of the undertaking, and be able to furnish the committee with all particulars they may require.

In cases where fully paid-up shares have been granted in lieu of money payments, an official certificate will be required that the contract providing for the issue of such shares has been filed with the registrar of the joint stock companies as prescribed by the 25th section of the Companies Amendment Act, 1867.

When a bargain is made in the Stock Exchange, it may, if it refer to securities on the official list, be recorded or registered on a board kept for that purpose in the house; and the record of the prices of such securities are "taped" all over the country, or copied into the many editions of morning and evening newspapers. The public is thus enabled to see the course of business in the shares and acquaint themselves with the present value of each; and it is the object of every company desiring a good market for its shares, to secure permission for their quotation on the official list.

It would be impossible for the committee to attempt to adjudicate upon the soundness of every new undertaking, and they are not concerned in the reasonableness or otherwise of the purchase price paid to the vendors; their rules are directed to prevent the promoters using the machinery of the Stock Exchange to deceive the public by making a fictitious inflation of prices look like a public demand for shares, where it is really only a "cornering."

Promoters have been known to issue a prospectus setting forth that the shares in a company are offered for public subscription, but have themselves sent in applications for large numbers of them, either in fictitious names or in the

names of their own nominees, and with the result that most of the shares were allotted to them. Having procured the necessary special settling-day for their shares, they next gave orders, through the medium of their nominees, to brokers to purchase large parcels of these shares. The jobbers who sold the shares, soon found that there was really only one source from which they could buy. The promoters had awarded themselves nearly the whole of the shares, and had then bought through the Stock Exchange more than there were in the market, relying on the rule of the Stock Exchange that a member must carry out his bargain. They expected to see the buying-in rule brought into force and knew that only they could supply the shares, therefore they determined to ask a very high price. Obviously, this would be setting in motion the rules of the house, not for the purpose of protecting the public, but for the benefit of a set of schemers who deserve the consideration of no man; and the committee have, in such cases, suspended the buying-in rule, and withheld or revoked permission to an official quotation.

## CHAPTER VIII.

### DEFAULT ON THE STOCK EXCHANGE.

"A MEMBER unable to fulfil his engagements, shall be publicly declared a defaulter by direction of the chairman, deputy chairman, or any two members of the committee."

This rule refers to members unable to fulfil engagements on the Stock Exchange ; but a further rule provides that if a member is not in default in respect of his Stock Exchange engagements, but has been made a bankrupt or been proved to be insolvent, he ceases to be a member.

If a member privately intimates to another his inability to fulfil his engagements, that other must not make any compromise with him, but immediately communicate with the chairman or members of the general purposes committee in order that the member may be immediately declared a defaulter.

There seems to be a general recognition that a man who is not solvent, or who cannot at the moment fulfil his engagements on the Stock Exchange, should be immediately debarred from making further bargains, and although the rules may occasionally bear very hardly upon a dealer, any departure from them must weaken the Stock Exchange members as a body.

When a defaulter is declared, he is said to be "hammered ;" an unformed official of the house striking

a desk with a hammer and calling out the name of the defaulting member. We have seen that the settlement of differences, where the ticket passes, is governed by ticket price; and where the security is dealt with in the clearing or settling department, the governing price is the "making-up price;" and when we come to deal with a member failing at a period between settling days, we require another price at which differences must be settled. The defaulter's estate will be liable for differences as though settlement of these took place on the day of his default, and members who would have owed to the defaulter anything by way of difference if settlement had been effected on that date must pay same to his estate. The fact of the defaulter being but one link in a chain of many concerned in one transaction, will not release the others. Bargains must be fulfilled, but, as to the defaulter, his liabilities and assets by way of differences will be settled according to the prices ruling on the date of his default.

The general purposes committee appoint official assignees whose duties are analogous to that of a trustee in bankruptcy. The official assignees will be careful to ascertain the current market price of all those securities in which the defaulter has dealings, and these prices they will obtain before the "hammering" of the defaulter. These prices will govern the settlement of their differences account, and are called the "hammer" prices. In an ordinary business, the failure of a person to carry out his contract would not entitle a trustee to any difference which would have been obtainable on its being carried out. The trustee could elect to carry it through or not, but he could not claim a difference merely. On the Stock Exchange, however, these differences must be settled in case of any failure. The fund created by the collection of differences due to the estate of the defaulter, is kept quite

distinct from all other funds, and the differences due by the defaulter are a first charge on this fund. Differences are as far as possible paid out of differences. Should there be a balance of this account in favour of the defaulter, this balance is carried to the general fund.

If any members have delivered to the defaulter, on the day of "hammering," any securities for which they have not been paid, the assets derived from these securities must be paid to them *pro rata*. They are preferential creditors only if the securities were handed to the defaulter on the day of default, and if the estate is wound up by the official assignee, and not by a trustee in bankruptcy.

The assignee will collect the balance at the bankers, but if the defaulter be a broker and any part of the bank balance represent money paid to the broker for investment and not yet invested, the official assignee will pay such sum back to the client in full. Legally, the broker was the agent of the client, and, pending its investment, the money was the legal property of the client although not in his physical possession.

Other items which the official assignees may secure would be bonds, and other securities, with the addition of the sums guaranteed by the sureties of any defaulting member of less than four years' standing. And where other members have made loans to the defaulter on the deposit of securities, they must realize the securities within three days or take them at a price fixed by the official assignee, and pay any balance to him.

It may happen that the defaulter has had dealings of a nature not recognized by the rules of the Stock Exchange, and, although the official assignees may admit claims arising therefrom upon the estate, they will first settle all other claims in full. On the other hand, they will



immediately claim anything due to the estate arising from such transactions.

Where the defaulter is a jobber, there is no difficulty in making a settlement, as all the dealings would have been with brokers or other jobbers, and all are amenable to the rules of the Stock Exchange. Where, however, the defaulter is a broker, his clients or principals will be affected by the failure, and may not altogether agree to be bound by these rules. The contract is legally one between the client and the jobber through the intermediary of the agent or broker, and the failure of the broker does not affect the legal position of the two principals (client and jobber). The client may, not later than settling-day, ask the official assignee to place him in communication with the jobber and he may then insist upon the latter carrying out the bargain; or he may employ another broker to complete it (a). If it were a bargain to sell to the client, the jobber must deliver the securities, or the client may elect to engage another broker to complete the transaction. And the jobber may compel the client of the broker to complete, notwithstanding the failure of the broker. It may seem that the jobber's claim upon the defaulting broker's estate for differences and his settlement with the official assignee, would debar him from claiming against the client; but this is not so, the differences account being a purely Stock Exchange rule, and not affecting the public in any way.

The official assignees have to provide sureties from among the Stock Exchange members, and have to prepare a statement to be furnished to the committee once a month. The receipts and payments on account of all estates of defaulters are passed through a special banking account in the names of the joint official assignees, and the

(a) *Duncan & Hill, L. R.* 8 Ex. p. 243.

committee may order any balance to be paid over to the account of the Stock Exchange Benevolent Fund, subject to recall by the committee for distribution amongst the creditors of the estates. A further statement of all sums so paid over, and of the amount remaining in the hands of the trustees of the Stock Exchange Benevolent Fund, on December 31st of each year, is deposited in the committee room and open to the inspection of all members of the Stock Exchange; and on March 1st the assignees lay before the committee a complete statement of dividends paid on each defaulter's estate during the past year.

The scale of remuneration to the official assignees is 5 per cent. on estates up to £1000, 2½ per cent. up to £5000, and 1½ per cent. from £5000 upwards, collected.

## CHAPTER IX.

### CONSOLS.

THE low price of Consols may be due to one or more of several causes, and some eminent financiers have endeavoured to state these causes and indicate methods by which the market price of our premier security may be raised.

The market price of any security may be said to depend upon:—

1. The rate of interest which it earns.
2. The certainty or security it offers to its possessor, or the risk of loss of capital; and, where the interest is not fixed, the prospect of an increase or a decrease in the rate thereof.
3. The existence or absence of a market offering facilities for dealing in the securities.
4. The facilities or difficulties in the method of transfer.

Interest or Dividend is not true interest, but a combination of true interest with a compensation for risk. Consols, if not entirely devoid of risk, are as nearly certain as possible, and the rate of yield on this security at market price is generally regarded at the present rate of true interest.

EXAMPLES.—True interest at the rate of  $2\frac{7}{8}$  per cent. per annum implies a market price of Consols at, say,  $90\frac{1}{8}$ , that is to say that

$\pounds 90\frac{1}{8}$  at  $2\frac{1}{2}$  per cent., is equivalent to  $\pounds 100$  at  $2\frac{1}{2}$  per cent., the latter being the fixed rate of interest on Consols; and an investor who requires  $2\frac{1}{2}$  per cent. interest will offer only  $\pounds 90\frac{1}{8}$  for  $\pounds 100$  nominal stock. Similarly, true interest at 3 per cent. implies a market price of Consols at  $83\frac{1}{4}$ ; and when Consols are quoted at 80, the true interest is  $3\frac{1}{2}$  per cent.

A comparison of the yield at market prices in the shape of interest on an investment in Consols, with the yield on an investment in another security carrying a fixed rate of interest, will reveal the general estimate of the risk of loss of capital involved in the latter, which is the difference between the two rates of yield.

EXAMPLE.—If Consols be quoted at  $83\frac{1}{4}$ , they yield, to a purchaser at that price, an interest at the rate of 3 per cent. If another security, carrying a fixed rate of interest of 5 per cent., be quoted at 125, it yields to the purchaser an interest at the rate of 4 per cent. (4 per cent. on  $\pounds 125 = 5$  per cent. on  $\pounds 100$ ). And the difference between the yields (3 per cent. and 4 per cent.), namely 1 per cent., represents the market's estimate of the risk involved in the last-named security, and the compensation demanded for that risk.

A comparison of the yield, at market prices, on Consols which carry a *fixed* rate of interest, with the yield on another security the interest or dividend upon which *fluctuates*, should also disclose the compensation demanded for risk to capital; but the market price of the security is based upon the market's estimate of its (the undertaking's) profits at present or in the immediate future, as well as its estimate of risk to capital invested. The latest declared dividend of a company related to its profits earned during a period antecedent to the declaration of the dividend, but present market prices reflect the general estimate of the profits now and in the immediate future. Suppose that a certain Stock, not carrying a fixed rate of interest on dividend, was quoted in the market on January 1st at 100 (par) upon the declaration of a dividend of 4 per cent.—

the yield being 4 per cent.—and that on March 1st the market price had fallen to  $88\frac{1}{2}$ . Based upon the previously declared rate of dividend, the yield at  $88\frac{1}{2}$  would be  $4\frac{1}{2}$  per cent. Further, suppose that between January 1st and March 1st the price of Consols has so fallen that the yield is increased by  $\frac{1}{2}$  per cent., and that the risk attending the other Stock has not increased or decreased. Then, it may be assumed that the general estimate of the dividend on the Stock for the present period will be at the rate of  $3\frac{3}{4}$  per cent. instead of 4 per cent.

Thus: On January 1st, the Stock was quoted at par, investors in that stock requiring 4 per cent. interest. Since then, the rate of yield on Consols has advanced  $\frac{1}{2}$  per cent., and, other things being equal, a corresponding increase in the yield of the given stock will be demanded, raising it to  $4\frac{1}{2}$  per cent. If now the market price of the stock falls to  $88\frac{1}{2}$ , then because  $4\frac{1}{2}$  per cent. on  $\pounds 88\frac{1}{2}$  equals  $3\frac{3}{4}$  per cent. on  $\pounds 100$ , it is clear that the market price of  $\pounds 88\frac{1}{2}$  is based upon an expectation of a dividend at the rate of  $3\frac{3}{4}$  per cent. The figures are approximate.

If the anticipated rate of interest were  $3\frac{3}{4}$  per cent., and the reduction were accompanied by a sense of greater risk, the greater risk would be expressed in a further reduction in the market price.

The third condition, that of a market for dealing in securities, is of some importance, because a good market tends to increase the price, and, therefore, decrease the yield of a security. The Stock Exchange is, undoubtedly, the best market for the purchase and sale of Bonds, Stocks, Shares and other like securities, and if any particular stock is excluded from that market, its price is smaller and its yield greater by comparison with similar stocks which are bought and sold on the Stock Exchange. For this reason Joint Stock Companies are, generally, content to comply

with the somewhat rigid regulations governing the admission of securities to a Stock Exchange settlement and official quotation. An investor does not usually contemplate holding a given security for all time and under all conditions, and therefore prefers a security which is quoted and sold on the Stock Exchange—the best possible market.

The fourth condition, mentioned above, whilst of far less importance than any of the preceding conditions, does affect the market price of securities to some extent. The holder of securities desires not only a good market, but also an easy method of transfer compatible with a sense of safety in the possession of the security, and an absence of the risk of loss by his being wrongfully deprived of it. A method of transfer of one class of security which entails much more trouble than that adopted for other securities must have its effect upon its market price.

There are three methods of transfer applicable to the several classes of securities dealt in on the Stock Exchange, namely:—

- (1) Transfer by delivery only ;
- (2) Transfer by deed of transfer ; and
- (3) Transfer by transfer ticket and identification of the seller, who must attend personally at the Bank or appoint an attorney.

The first method applies to Securities, the certificates of which do not bear the name of the holder, and are called "Bearer" Securities. This class includes many Foreign and Debenture Bonds, as well as Share Warrants to Bearer. No easier method of transfer than this could be devised, as it requires simply the exchange of the Bond or Warrant for a cheque or other form of money; but the certainty in its possession is greatly curtailed by its being regarded as a "Negotiable" instrument. Some

instruments, as Bank Notes and other Promissory Notes, Bills of Exchange, and Cheques have been made "Negotiable" by Statute, or Act of Parliament; others, including securities to Bearer, have been made "Negotiable" by the custom and usage of the market—the Stock Exchange—which custom has been adopted by our judges and forms part of our Common Law: and this "negotiability" of these instruments confers upon an innocent holder for value the legal title to them, notwithstanding that they were received from one who had no legal title to them. Thus, if a person steals a Bearer Bond and disposes of it to an innocent person who takes it in good faith and gives value for it, the latter acquires a legal title to it, and the loss falls upon the person from whom it was stolen.

The third method goes to the other extreme, making it very difficult for any other than the true owner to transfer the security. There is the great difficulty presented by the rule that the true owner must attend personally at the bank, and must there be identified as the true owner by his banker, and the risk of detection which acts as a deterrent to would-be impersonators; but these safeguards in possession are obtained at the expense of considerable trouble to the true owner who wishes to dispose of his securities. Any safeguard in possession of securities must be created at the cost of decreased facilities of transfer by the true owner. This method of transfer applies to Consols, and some other securities, in respect of which no certificate is issued to the holder.

The second method of transfer is in the nature of a compromise between the first and third, combining a reasonable certainty in possession with fair facility of transfer; and this method is adopted in respect of shares of most Companies. A certificate is issued in the name of the holder, which certificate, together with a transfer

deed signed by both buyer and seller, must be lodged with the Company, who will thereupon transfer the shares to the buyer, and issue a new certificate in his name. The Company may compare the signature of the seller, as it appears on this deed of transfer, with either his signature as buyer on the previous deed if he purchased the shares from a previous holder, or his signature on the form of application if he were an original holder.

The Government appears to have recognized that the difficulty of transferring Consols resulted in a restriction in dealings in them, and has instituted, in respect of a limited quantity, the simple method of using "Bearer Consols"; and one suggestion of financiers is that these Bearer Consols certificates should be issued in larger quantity and in smaller denominations, say £5 or £10 and certain multiples thereof. It is believed that such Bearer Consols would be readily purchased by persons of small means who desire the most secure investment, and it is suggested that safety in possession might be secured by the deposit of the securities with a banker, or at certain post offices by special arrangement.

The French Government, in 1871, granted "Rentes"—equivalent to our Consols, either in the name of the applicant or "to bearer"; and the German Government issues certificates of its Imperial Loan in small denominations.

Some people suggest that the method of transfer by deed and the issue of certificates, as observed in the case of most Companies, should be substituted for the present more cumbrous method of transferring Consols; but there are difficulties, and perhaps the chief of these is the risk of loss to the Bank or the Government.

The loss by wrongful conversion or sale, of Bearer Securities falls upon the person from whom they were



stolen or fraudulently obtained ; and the loss by wrongful conversion of Consols falls upon the broker who wrongfully identified the transferor as the true owner to the Bank—neither the Bank of England nor the Government are the losers in either case. It is true that the Bank of England is liable to the true owner for wrongful conversion, but it has successfully maintained its right to be indemnified, or recompensed, by the broker for losses incurred through his wrong identification. But the loss occasioned by a Company's transfer of Shares on the authority of a forged transfer deed falls neither upon the true owner, nor upon the broker, but upon the Company ; and if the Bank of England did not insist upon identification of seller by broker, but relied upon a transfer deed, any loss consequent upon the transfer of Consols by forged transfer deed must fall upon either the Bank or the Government. Instances of wrong transfer seldom occur with Companies, and are not unknown in the case of Consols.

The contention that the removal of restrictions of transfer and the issue of Bearer Consols Certificates of smaller denominations would tend to raise the price of Consols is a reasonable one. This investment would appeal to a wider circle, would be in increased demand, and a rise in the price must follow ; but it may be doubted whether the effect would be very marked.

Another method of increasing the market price of consols, and one which has been suggested recently, is to increase the rate of interest from  $2\frac{1}{2}$  per cent. to 3 per cent., and there can be no question that this means would be effective. This conversion should, it is suggested, not increase the interest payable by the Government, but be effected by the exchange of £83 6s. 8d. in 3 per cent. Consols for £100 in  $2\frac{1}{2}$  per cent. Consols—an exchange which would affect neither the market value of, nor the

amount of interest payable upon, the stock held by any stockholder (3 per cent. on £83 6s. 8d. =  $2\frac{1}{2}$  per cent. on £100).

The price of Consols has been in the neighbourhood of 80 during February, 1911, and  $2\frac{1}{2}$  per cent. on £100 is equivalent to  $3\frac{1}{8}$  per cent. on £80; the yield on Consols is, therefore,  $3\frac{1}{8}$  per cent. If the rate of interest were increased to 3 per cent. and the market demanded  $3\frac{1}{8}$  per cent. on the investment, as at present, then the market price of the newly created 3 per cents. would be 96 ( $3\frac{1}{8}$  per cent. on £96 = 3 per cent. on £100).

In other words, since investors will not buy for less than a yield of  $3\frac{1}{8}$  per cent., and holders are content to sell at that price—

Consols, at  $2\frac{1}{2}$  per cent., will be sold at 80.

Consols, at 3 per cent., would be sold at 96.

The conversion of  $2\frac{1}{2}$  per cent. Consols into 3 per cent. Consols has the advantage to be derived from a national pride in the increased market price of the national funds; and the disadvantages of reducing the nominal holding of each stock-holder, some of whom might regard it as serious; and of reversing the process by which, throughout our history, the rate of interest on the national debt has tended towards a reduction. In 1694 the Government borrowed from the Bank of England at 8 per cent. interest, subsequently it issued stock at 5 per cent., and under the scheme arranged in conjunction with the notorious South Sea Company, this was reduced to 4 per cent. Still later, stocks were issued carrying an interest at the rate of 3 per cent., and the various issues of this stock were consolidated and became known as Consols, or Three-per cents. Under Mr. Goschen's scheme these Consols were converted into  $2\frac{3}{4}$  per cent. for a fixed period, and  $2\frac{1}{2}$

per cent. after the lapse of that period. These conversions did not affect the nominal value of stocks, which was not increased to compensate the holder for a reduction in the rate of interest. The immediate effect of a reduction to  $2\frac{1}{4}$  per cent. was seen in a reduction of the market price of Consols, but the reduction in the price was not so great as that of the interest, and by the year 1894 the  $2\frac{1}{4}$  per cent. stock stood higher than the 3 per cent. stock had ever been, and during a few subsequent years it rose to a height which few could have contemplated. Perhaps the chief cause of this rise of price, which commenced in 1894, may be found in the concentration of capital at home which, under normal conditions, would have found employment abroad, and the consequently increased demand for good securities in England; and it may be noted that all first-class securities shared with Consols in the rise in market prices. The grave financial troubles in America and in Australia had brought about a reaction, and the element of risk in investments in those countries, which had been under-estimated, was estimated at its true value, or, probably overestimated, and little capital was sent abroad.

During the present century, the market price of Consols has fallen to a point lower than any reached for very many years—indeed, since 1847. The Boer War increased the National Debt and so absorbed a large amount of capital, and circumstances have combined to produce very many other securities in competition with Consols in our market: Australia has recuperated and has enjoyed an era of great prosperity; Canada is developing at a great rate; the Argentine is also rapidly developing, and the same may be said of South Africa. The world is at peace: the feeling of insecurity which kept British capital at home has given place to confidence in Colonial and Foreign

investments ; many foreign loans have been floated here ; and our home industries have enjoyed a period of prosperity. All these things have opened up avenues for British capital, and the safe but small interest-bearing Consols naturally have been comparatively neglected and have fallen in price ; and the same may be said of other first-class securities.

Generally, a marked rise in the price of Consols has been contemporary with a rise in the price of all first-class securities, and a fall in the price of Consols has been accompanied by a fall in the price of all first-class securities. If the fall in Consols has been proportionately greater than that in the other securities, it may have arisen from the fact that the investing public has altered its estimate of the risk involved in an investment of our first-class securities ; and probably this is the chief reason. But it may be partly due to Consols being neglected because of the difficulties presented by methods of transfer which are capable of amendment, and it would seem that the facilities for their transfer should, as far as possible, be as great as those afforded to other securities, that Consols may possess the full advantage of their unrivalled security.

A comparison of the yield from various Stocks bearing interest at a *fixed* rate, at prices quoted in a recent issue of prices on the Stock Exchange, reveals :—

	Price.	Yield per cent. per annum.
2½% Consols ...	81	3·08
3% French Rentes	96½	3·11
3% Imperial German	84½	3·55
4% Russian ...	95	4·21
4% Japanese ...	91	4·39
3% Portuguese ...	66	4·55
3½% New South Wales	98½	3·57

	Price.	Yield per cent. per annum.
3½% London County	100½	3·41
4% Pref. G.N. Ry.	94	4·25
3% „ Caledonian Ry.	66	4·55

•An alteration of the rate of interest paid on the security will affect its price, but not its yield.

Thus, if all of these securities were two-and-a-half per cent., as are Consols, their prices would be about :—French, 80½ ; German, 70½ ; Russian, 59½, and so on ; and the yield would remain the same. Individually, the price, and the yield, may alter without any alteration in the rate of interest, in which case it would be due to a rise or fall in the estimation in which the security is generally held, and to a corresponding decrease or increase in the compensation demanded for risk by investors. Collectively, the prices, and the yield, may alter by a rise or fall in the market rate of interest on capital or loanable money, in which case, other things being equal, the rise or fall would affect all prices in approximately equal degree. It may be noted that some Government Stock, *e.g.* Consols, French Rentes, and Imperial German, are not redeemable at the instance of the Stockholders, whereas in many loans to Foreign Governments it is agreed that the loan shall be redeemable at par on a stated date, or earlier ; and as that date approaches the price of the stock, or bonds, will approach par, unless there is a fear that the Government will not meet its obligations.



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